ANNUAL REPORT 2018

SECP

Securities and Exchange Commission of Pakistan

Key highlights

- During the FY-2018, SECP registered a total of 11,370 companies, raising the total number of registered companies to 87,620 indicating a growth of 37% over the corresponding year.

- A total of 558 companies with total paid-up capital of Rs1,297.375 billion are listed on the Pakistan Stock Exchange. The market capitalization stood at Rs8,665.045 billion on June 30, 2018.

- The KSE 100 index began the year at 44,665.41 points and closed at 41,910.90 on June 30, 2018, i.e., registering a decrease of almost 7%.

- KSE 100 index touched its lowest level, i.e. 37,919.42 on December 19, 2017, and reached its highest level of 47,084.34 on August 3, 2017. The average daily turnover recorded on June 30, 2018 was 174.532 million shares.

- The Centralized Customer Protection and Compensation Fund replaced the Investor Protection Fund of the PSX. The fund is operational, offering adequate safety net to investors trading in our capital market against broker default.

- The PSX was granted a license to operate as a futures exchange under the Futures Exchanges (Licensing and Operations) Regulations, 2017.

- The SECP approved futures commodity contracts of Brent crude, crude oil (1,000 barrels), copper (25,000 pounds), silver (5,000 oz) and international cotton (50,000 pounds), which were launched at PMEX.

- As of June 30, 2018, the asset size of the NBF sector stood at Rs1,228 billion as compared to Rs1,196 billion on June 30, 2017, reflecting an overall increase of 2.7%.

- Five companies, including two modarabas offered shares/modaraba certificates to public whereas four companies offered shares during the last fiscal year. New capital of Rs6.48 billion was listed in FY-2018 as compared to Rs11.651 billion in FY -2017.

- As of June 30, 2018, 25 microfinance institutions had been successfully licensed with total assets of Rs97.17 billion.

- The IOSCO upgraded Pakistan's compliance rating in 10 out of 14 of its principles. Pakistan's compliance to IOSCO's principles increased from 62% in 2015 to 83% in 2017.

- In 2017, premium revenue of life insurers and non-life insurers grew by 18% and 12% respectively. The life insurance sector underwrote premium of Rs213.6 billion, and non-life insurance sector recorded premium of Rs94.8 billion.

- The SECP's financial results for the year FY-2017-18 show an after tax surplus of Rs302 million as against last year's Rs414 million.

Vision, Mission & Strategy

Vision

The development of modern and efficient corporate sector and capital market based on sound regulatory principles, that provides 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.

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Chairman's message

It is indeed a privilege for me to present the SECP's Annual Report for fiscal year 2017-2018. Given the developments during the course of the year, my brother Commissioners and I consciously focused on proactively facilitating business growth, supporting private capital formation, improving access to formal financial products and interlinking the capital markets with the real economy. While economic factors continued to affect the overall business and investment climate, investors and consumers remained cautious and adopted a wait-and-see approach. Nonetheless, I am pleased to report that SECP made meaningful strides to chart the course it had set out at the beginning of the year. Implementation of the reforms agenda focused on promoting ease of doing business and improving the overall business climate remained at the center of our efforts. The SECP's major accomplishments are briefly stated in the following sections.

Corporate sector

On the corporate side, the SECP's focus remained on introducing reforms to improve 'starting a business ranking' of Pakistan. This involved reducing the time and cost of starting up a new business and measures for protecting the minority shareholders. In order to achieve these objectives, the SECP continued to persist with its focus on digitizing its registration system and integrating it with other government authorities.

In order to reduce the time and procedures involved in registration of companies, the SECP has introduced a combined online application form for name reservation and company incorporation. This has reduced the company registration time to four hours. As a result, 71% of the newly registered companies were incorporated in a single day. Likewise, the cost of registering small companies was reduced by 80%. The scope of digital payment facility, introduced earlier, has been expanded through an agreement with 1-Link for payment of the SECP fees through ATMs, mobile and internet banking. Moreover, several statutory forms for post-registration processes were also merged.

The SECP's eServices were integrated with the FBR system for company's NTN registration. Now a registered company automatically receives its NTN via email. Each of the two factors, i.e, time and cost of starting a new business, have a 25% weightage in the World Bank's starting a business indicator.

These reforms have started bearing fruit as the SECP witnessed a 37% growth in companies' incorporation during FY-2018. This year, we incorporated 11,370 new companies, raising the number of registered companies to 87,620. The simplification of incorporation procedure, reduction in fee, elimination of purchase of third party digital signatures, introduction of simple and hassle-free CNIC-based user ID and PIN system for incorporation and post-incorporation activities contributed to this growth. The World Bank also recognized Pakistan's efforts and upgraded its ranking by 11 notches in the latest Ease of Doing Business rankings, improving it to 136th from 147th last year.

In addition, a number of awareness sessions on ease of doing business reforms were conducted in Karachi, Lahore and Islamabad to share these changes with the users and other stakeholders. Likewise, sessions were held with the consultants, corporate lawyers and officers of companies to familiarize them with the regulatory changes and to accelerate the compliance rate and spread information related to the new law of limited liability partnerships.

Capital market

Pakistan's capital markets continued to face some of the historic challenges, i.e., a bank centric financial sector (almost 74% assets in banking sector, and 10% in NSS), low gross domestic savings of 6.8%, as a percentage of GDP, inadequate role of capital markets in the financing of infrastructure projects and limited activity on the front of privatization in the last few years. Moreover, the investor base remained relatively small in spite of the fact that our market on an average offers good return on investment. However, I am confident that the solid foundation laid by the SECP's robust and structured investor outreach program 'JamaPunji', and active support extended to it by all the market players, will yield positive results over the next couple of years. We must not overlook that these challenges are also opportunities for growth. Pakistan's over 200 million population includes 45 million smart phone/internet users, and this digitally savvy youth will be the engine of growth for the capital markets in years to come. The capital market will also invariably benefit from CPEC and post-CPEC related economic activities, privatization of SOEs through capital market and development of the debt capital market – areas, which are on the priority list of the incumbent government.

Pakistan's capital market regulatory framework is in line with the best international practices and can be compared to any developed jurisdiction. Transparency in capital market is ensured through detection of all possible stock market abuses, i.e., market manipulation, false trading, market rigging, fraudulently inducing others and insider trading are considered as criminal offences under the Securities Act, 2015.

The SECP's capital market reform agenda comprises various regulatory, operational, structural and market development initiatives to promote an orderly and efficient market. Market reforms primarily focused on strengthening governance at the frontline regulators, system development initiatives to capitalize on technological advances and measures aimed at liquidity generation, enhanced risk management and increased investor protection.

In order to provide ease of doing business to capital market participants, the SECP consolidated the regulatory framework for IPOs. For retail investors, centralized e-IPO system was introduced, enabling the masses to submit applications through internet, mobile phones or ATMs. In the latest IPO, 60% of applications were received through e-IPO. The SECP has also taken a number of measures to reduce the cost of doing business for market participants by eliminating the underwriting cost of public offering through 100% book-building and the SECP's processing fee for issuance of debt securities has also been reduced by 50%.

Moreover, significant improvements to the level of compliance with the IOSCO principles for securities exchanges testify to the success of the reform agenda. A further upgrade in Pakistan's compliance rating in 10 out of 14 principles was registered. Consequently, compliance rose to 83% in FY-2018 from 62% in 2015.

In addition to the measures for enhancing market depth and increasing the overall investor base, serious efforts are being made to introduce new products and providing investors with more varied investment options. Reforms will also be instituted to create a more active primary market and to develop the capital market as a viable source of capital formation by growth enterprises and SMEs.

NBF sector

The asset size of the NBF sector has been growing over the past few years. By the end of the year under review, the total NBF sector asset size was recorded at Rs1,228 billion as compared to Rs1,196 billion on June 30, 2017, showing an increase of 2.7%.

The SECP has taken a number of measures to foster growth in NBFCs and safeguard the interests and rights of investors and instituted several regulatory reforms. In the mutual fund industry, we focused specifically on product diversification, innovation and use of technology. To diversify the products and offer investors more options and avenues for investment, the AMCs have been allowed to re-launch constant proportion portfolio insurance (CPPI) based collective investment schemes. New sector specific funds, i.e., energy sector and financial sectors were also launched. Moreover, the AMCs have introduced online investor account opening facilities, online investment options, redemption and conversion facility and mobile applications for investment in mutual funds.

The real estate investment trust is a budding sector. The government, through amendments to the Finance Act, 2018, reduce the tax rate on dividend received by corporate unitholder of a REIT from 25% to 15%.

Another significant area is the lending non-banking finance companies. A concerted effort has been made to ensure smooth transition of microfinance institutions to non-banking microfinance companies and a number of regulatory changes have been adopted.

Insurance

The insurance sector of Pakistan, on an average, has been growing by 16% per annum during the last five years. In the period under review, the life insurance sector grew by 22% and the non-life sector by 8%. As of December 2017, the industry's total direct premium revenue stood at Rs308 billion; (life 69%; non-life 31%) whereas, the total assets stood at Rs1.3 trillion. In 2017, the premium revenue of life insurers and non-life insurers grew by 18% and 12%, respectively, while the overall growth rate during this period remained 16%. The life insurance sector underwrote premium of Rs213.6 billion during 2017 and non-life insurance sector recorded premium amounting to Rs94.8 billion during the same period.

The insurance penetration in Pakistan increased from 0.73% in 2013 to 0.95% of GDP in 2017. There were multiple factors, but low level of financial literacy is a key reason for low insurance penetration. In addition, there are weaknesses in the effective implementation of legally mandatory types of insurance, i.e., motor third party liability insurance and compulsory group insurance. The SECP has developed proposals in relation to both of these areas, and we are confident that with the support of the federal and provincial governments, these two areas will be addressed, and have a direct bearing on insurance penetration in the next 24-36 months.

The SECP is focusing on the development of alternative distribution channels to ensure effective and far-reaching delivery of insurance products and services and adoption of technology-based solutions in the insurance life cycle, i.e. from prospecting of client to the claim settlement.

It was recognized that appropriate regulatory measures were required to ensure the insurance companies' compliance with their absolute commitments arising out of irrevocable and unconditional guarantees. Therefore, the SECP, in consultation with IAP and SBP, notified the Credit and Suretyship (Conduct of Business) Rules, 2018. It is hoped that due to these regulations the business of insurance guarantees shall be written with due care and prudence and the insurers would only be able to underwrite the guarantees business within the exposure limits prescribed under the rules. Consequently, it would also enable the insurers to honor their contractual obligations arising out of these contracts.

On the policyholders' grievance resolution side, after intervention of the SECP, the insurers provided an aggregate compensation amount of Rs85.303 million on account of settlement of the grievances of their policyholders during the year. The SECP has already set up 3 small dispute resolution centers (DRCs) in Karachi, Lahore and Islamabad to promote alternative dispute resolution.

Islamic finance

The promotion of sustainable Shariah-compliant business and finance industry is one of SECP's core objectives. Shariah governance in the capital markets stays at top of the SECP's governance agenda. In this regard, the SECP has taken a number of measures to bring the Islamic capital market in line with international standards and best practices.

The SECP has issued draft Shariah Governance Regulations, 2018, for public consultation. The regulations provide a holistic Shariah governance framework, prescribing a comprehensive mechanism for the certification of Shariah-compliant companies and Shariah-compliant securities, Shariah screening criteria for companies, and for covering functions such as internal and external Shariah audit, Shariah advisory and Shariah compliance. To bring harmonization and standardization to the business practices of Islamic financial institutions, the SECP has been gradually adopting the standards issued by leading international standard setting bodies. In FY-2018, SECP adopted three AAOIFI Shariah standards while seven additional AAOIFI Shariah standards were circulated for consultation with stakeholders.

Anti-money laundering

The ongoing mutual assessment by Asia Pacific Group and the implementation of an agreed-upon action plan with Financial Action Task Force are our high priority areas. Being the regulator of capital market, non-banking financial companies, modarabas, and insurance sector, the SECP has an important role and is fully committed to fulfilling its obligations.

We have notified Anti-Money Laundering and Countering Financing of Terrorism Regulations, 2018. The regulations consolidated the earlier AML/CFT regime for financial institutions regulated by the SECP, i.e., securities brokers, insurance companies, non-banking finance companies and modarabas. These regulations are fully compliant with the recommendations of the FATF, which are mandatory for Pakistan to adopt as a member of the AFG on Money Laundering. The next step is efficient implementation of these regulations to effectively control the phenomenon of money laundering.

Systemic risk

The SECP and SBP established the Council of Regulators to deliberate on issues related to systemic risk, in particular those having cross-market and stability implications, to suggest possible arrangements for crisis preparedness and to come up with a coordinated response. Its establishment is aligned with the best international practices and marks a significant step to enhance the SECP-SBP collaboration to promote financial stability.

Furthermore, in collaboration with the NCCPL, the SECP has led the development of a detailed investor and broker level risk profiling and stress-testing model for clearing and settlement. This model assigns probability of default to each investor based on five-part criteria. The model has been implemented at the clearing house, equipping it with the ability to monitor settlement risk efficiently.

Surveillance and monitoring of regulated entities

In order to review their compliance with applicable legal regulatory framework and to safeguard interests of shareholders, investors and public at large, the SECP continued active surveillance and monitoring of regulated entities. During the year, 569 annual audited financial statements of listed, unlisted, private companies and companies registered under Section 42 of the Act, 2017, were examined. During the same period, 368 cases of non-compliance with the SECP's regulatory framework were identified and referred for adjudication and show cause proceedings were initiated. During the year, 307 orders were passed on show cause proceedings while 164 proceedings were concluded by issuing warning letters.

Moreover, the SECP also carried out nine inspections and two investigations of listed companies while six enquiries were conducted against capital market participants. Besides, 178 cases of non-compliance with the PSX rulebook and CDC regulatory framework were referred to PSX/CDC for further necessary action. Two cases involving alleged syphoning off assets and corrupt practices were referred to NAB for further investigation.

International relations and investor education

The SECP, for the fourth consecutive time, has been elected as an IOSCO board member. Furthermore, the World Bank after conducting country assessment, published a report on the observance of standards and codes (ROSC) relating to auditing and accounting standards acknowledging practice of high standards in Pakistan. Whereas similar ROSC assessments are being carried out to assess corporate governance and principles for market infrastructure institutions.

Through its investor education program JamaPunji, the SECP has been encouraging the existing and potential investors to make the capital market, insurance and non-banking financial sectors their preferred avenues for investment. This year, the Investor Education Department signed 16 MOUs with private and public sector colleges and universities. Under these MOUs, the SECP conducted 92 interactive awareness seminars in multiple cities. The events included classroom awareness sessions, mentoring for women entrepreneurs, seminars with the local chambers of commerce and start-ups, incentives-based stock trading competitions between groups of university students, youth investment week and world investor week celebrations etc.

In addition, the SECP also signed an MOU with the Pakistan-China Institute, a leading Islamabad-based think tank, to play its role in the belt and road and CPEC initiatives. Similarly, we signed an MOU with the Peshawar-based National Incubation Centre.

Service desk management system

In order to provide easy access to the masses for the filing of queries and complaints, the SECP launched a web-based centralized Service Desk Management System (SDMS) on June 2, 2017. During the year, the SECP further leveraged technology to deliver a mobile application of the SDMS, ensuring prompt action and provision of regular updates on their complaints. Consequently, the SECP successfully handled more than 4,624 complaints and queries during the year.

Financial position

The financial results of the SECP for the financial year 2017-18 show a surplus income of Rs302 million as against last year's surplus of Rs416 million. The total revenues (net of levies) and other income for the financial year 2017-18 are Rs3,442 million, which are higher by Rs394 million (11%) as compared to last year's revenue of Rs3,048 million. The revenues of Company Law Division, Specialized Companies Division and Insurance Division increased by 15%, 30%, 10% respectively, compared to last year's revenues. However, the revenue of Securities Market Division dropped by 6.5%, owing to low trading activity at the PSX. The total operating expenses for the year under review were Rs3,014 million, which were within the approved budget. Likewise, capital expenditures for the year remained within the approved budget. A sum of Rs35 million, received as penalties by the SECP, was deposited into the Federal Consolidated Fund.

Future roadmap

Although encouraging, our achievments have not induced a sense of complacency among us. We have robust and meaningful targets planned for the future:

- Dedicated efforts will be made for continued development of the capital markets by fostering deeper linkage and connectivity with the real economy.
- Development of the primary market, debt market and SME finance segment. SECP shall make concrete efforts for encouraging new equity listings (IPOs). Similarly, focused efforts shall be made to facilitate listing and trading of SMEs on the Pakistan Stock Exchange and operationalization of a dedicated SME counter at PSX to enable access to finance for SME sector.
- The SECP, in collaboration with the relevant stakeholders, shall put in place, supportive frameworks/ environment for listing of infrastructure-related debt instruments as well as launching of infrastructure funds.
- The Real Estate Investment Trust Regulations, 2015, shall be amended to address problems being faced by the REIT industry and to ensure promotion of REITs in Pakistan
- For a more vibrant and active derivatives market that provides more diversified avenues of investment

and hedging to investors, a priority shall be given to the activation of cash-settled stock and index futures segment, enabling measures for the launch of stock and index options and the launch of ETFs in Pakistan.

- The SECP will support the growth of agricultural produce companies by interacting with all relevant stakeholders to have a comprehensive and modern policy framework. This will enable it to play the much needed role in the development of the whole agriculture value chain.
- Enabling regulatory framework; alternative funding sources for MSMEs through crowd funding and investment platforms and P2P lending
- Improving the access to finance for SMEs through the promotion of PE&VC
- In order to provide Shariah-compliant alternative to investors, Shariah-compliant financing services will be designed in coordination with NCCPL. Efforts are also underway to introduce a Shariah-based trading platform at PSX.
- Realizing the need for introduction of a new surveillance system at PSX, the effort to modernize the existing trading and surveillance system at PSX is now being pursued actively.
- Following the promulgation of the SECP AML/CFT Regulations, 2018, transition to risk-based program remains a high priority. In order to provide guidance to the regulated entities, guidelines to the SECP AML/CFT Regulations, 2018, shall be issued, in addition to developing the risk-based approach for the SECP's supervisory regime and enforcement action policy against non-compliant financial institutions.
- Keeping in view the importance of being an active member of international bodies recognized as global standard setter for regulators, the SECP will apply to become a signatory to the IOSCO's enhanced multilateral memorandum of understanding (EMMOU), which will ensure enhanced information sharing and cooperation between IOSCO members.

There is definite scope and commitment within the SECP to make it a role model of technological prowess and a leader of using technology for extending an excellent public service experience, better regulation and enforcement and promoting Pakistan as a preferred investment destination. It will require SECP to invest in automation, business decision-making capability, and state-of-the-art decision-making tools.

It is my firm belief and resolve that the SECP should not operate in a vacuum. We must continue with our traditional approach of reaching out to the regulated entities and stakeholders on a proactive basis. Decisions should be made, processes implemented and regulations enacted on the basis of active dialogue and thorough understanding of the underlying business realities, to create markets that support capital formation, economic prosperity, level playing field and transparency. Therefore, to enhance coordination and consultation with stakeholders and market participants, two committees, i.e., a reform committee of stakeholders for capital markets and financial sector and a coordination committee of frontline regulators have been formed.

In conclusion, I would like to express my profound gratitude to the federal government and the Ministry of Finance. I would also like to thank the Chairman and members of the Policy Board for their highly valuable guidance and support. I am also indebted to my brother Commissioners, and to the SECP's employees for their hard work, dedication and commitment.

Capital markets

Market overview

The year started with a steady decline in the market, followed by a successful recovery, which lost its impact towards the end. On July 1, 2017, the KSE 100 index began from 44,665.41 points and closed at 41,910.90 on June 30, 2018, almost 7% down from its starting point. KSE 100 touched its lowest, i.e. 37,919.42 on December 19, 2017 and its highest level was 47,084.34 points on August 3, 2017. The average daily turnover was 174.532 million shares. A total of 558 companies, with accumulated paid-up capital of Rs1,297.375 billion are listed on the Pakistan Stock Exchange (PSX). By the end of financial year, the total market capitalization stood at Rs8,665.045 billion, about 9% down as compare to the last year. During the year, the stock market witnessed a net outflow of $288.56 million foreign investment, reflecting a negative 56% over the last year. However, despite turbulence, all settlements were executed in a timely manner, demonstrating strength of the capital market.

Capital issues

Issue of share capital

During FY-2017-18, five companies including two modarabas offered shares/modaraba certificates to the public as compared to four companies offered shares last year. New capital of Rs6.48 billion was listed in market as compared to Rs11.651 billion listed in FY-2016/17. Details of these issues given in the table below:

Equity: retail portion

In million rupees

Sr. No.	Company name	Sector	Subscription date	Total paid-up capital	Already paid-up capital	Total offered capital	Offered capital through retail portion	Premium per share (rupees)	Offered capital (including premium, if any)	Subscription received (including premium)	Times subscribed
1	Habib Metro Modaraba	Modarabas	September 19-20, 2017	300	210	90	90	Nil	90	169.37	1.88
2	Orient Rental Modaraba	Modarabas	30-31 October 2017	750	350	400 including green shoe option of 250	400 including green shoe option of 250	Nil	400	559.7	1.39
3	Matco Foods Limited	Food and Personal Care Products	January 29-30, 2018	1,165	874	291.43	72.86	16	189.436	78	0.410
4	AGP Limited (offer for Sale)	Pharmaceuticals	February 15-16, 2018	2,800	2,800	350	87.5	70	700	784.16	1.12
5	At-Tahur Limited	Food and Personal Care Products	July 3-4, 2018	1,467	1,100	366.67	91.67	11	192.5	337.428	1.75
	Total	-	-	**6,482**	**5,334**	**1,498**	**742.03**	-	**1,572**	**1,929**	-

Equity: book building portion

Sr. No.	Company name	Bidding date	Total paid-up capital (in million rupees)	Already paid-up capital (in million rupees)	Floor price (rupees)	Number of shares offered (in million)	Number of shares bid for (in million)	Strike price per share (rupees)	Premium per share (rupees)	Offered capital (at strike price) (in million rupees)	Times subscribed
1	*Matco Foods Limited	January 23-24, 2018	1,165	874	26	*29.143	30.418	26	16	758	1.04
2	*AGP Limited (Offer for Sale)	February 7-8, 2018	2,800	2,800	80	*35	55.956	80	70	2,800	1.6
3	*At-Tahur Limited (Listing in process)	June 25-26, 2018	1,467	1,100	20	*36.67	55.158	21	11	770	1.50
	Total	-	**5,432**	**4,774**	-	**100.8**	**141.5**	-	-	**4,328**	-

**The issue was made under Regulation 7(4) of the Public Offering Regulations, 2017. Under the said regulation bidders are allowed to place bids for one hundred percent of the Issue Size and the strike price is the price at which 100% of the issue is subscribed. However, the successful bidders are allotted only 75% of the issue size and the remaining 25% of the issue size are offered to the retail investors. In case the retail portion of the issue remains unsubscribed, the unsubscribed shares are allotted to the successful bidders on pro rata basis.*

Number of IPOs/SPOs and funds raised during the last three years

Year	*Number of IPOs*	*Fund raised (including premium amount)*	*Capital listed (in billion rupees)*
2017-2018	5*	4.8	*6.48
2016-17	4	10.241	11.652
2015-16	5	8.92	8.13

**Listing of At-Tahur Limited is in process.*

Issue of redeemable capital

During the year, one issue of listed term finance certificate was offered to the public, i.e. issuance of TFCs of Rs7 billion by Bank Alfalah Limited. The TFCs issued by Bank Alfalah Limited were offered to both retail investors and pre-IPO investors. Out of total issue of Rs7 billion, Rs0.7 billion were offered to retail investors and Rs6.3 billion offered to pre-IPO investors. Details are given the table below:

Debt issues-Listed TFC

S. No	*Name of company*	*Subscription period*	*Listed at*	*Amount (In billion rupees)*
1.	Bank Alfalah Limited	March 8-9, 2018	PSX	7.00
Total				**7.00**

Issue of capital (listed companies)

The board of directors of listed companies are empowered to increase paid-up capital by way of right and/or bonus issues subject to compliance with the requirements of Companies (Issue of Capital) Rules, 1996. However, in case companies intend to issue shares at a discount, otherwise than right, preference shares or under employee stock option schemes, prior approval of the SECP is required. Tables below provide a comparison of capital issue cases handled during in the preceding three years along with category-wise break-up:

	2016	2017	2018
Applications approved	9	9	6
Applications rejected	5	7	4
Applications in process	10	3	8
Total	**24**	**19**	**18**

Here is a category-wise break-up of capital issue cases

Particulars	Otherwise than right			Issue of preference shares			Issue of shares at discount			Relaxation of rules			Employees' stock option		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Applications approved	5	2	5	1	-	-	-	2	-	3	5	-	-	-	1
Applications rejected	3	3	-	-	-	-	1	2	1	1	1	2	-	1	1
Applications in process	4	3	4	-	-	-	1	-	2	5	-	1	-	-	1
Total	**12**	**8**	**9**	**1**	**-**	**-**	**2**	**4**	**3**	**9**	**6**	**3**	**-**	**1**	**3**

Key achievements

e-IPO

In order to facilitate the public during initial public offerings (IPO) and to make the IPO process efficient, the SECP has introduced and implemented the concept of e-IPO. The e-IPO enables investors to submit application for subscription of securities electronically using the internet, ATMs and mobile phones. The following two systems are available for e-IPOs:

Centralized e-IPO System (CES)

The CES has been developed by the CDC in collaboration with 1Link (G) Limited (1Link). Nine banks, i.e. Allied Bank Limited, Askari Bank Limited, Bank Alfalah Limited, Bank Islami Limited, Faysal Bank Limited, Habib Bank Limited, JS Bank Limited, MCB Bank Limited and Meezan Bank Limited, have been integrated with the CES through 1-Link. Some other leading banks would also be included in the system shortly. The CES has been used in all the eight IPOs since its launch in May 2017, including one debt issue.

Investors are required to register with CES to apply for an IPO. The process for registration is simple and user friendly and available 24/7, throughout the year. For registration, an investor required a valid computerized national identity card (CNIC), international bank account number (IBAN) with any of the commercial banks, email address and mobile phone number. The CES can be accessed via link **www.cdceipo.com**

The registration is free and a one-time activity, i.e. after registration with the CES, the investor needs not to register again for subsequent IPOs. However, separate application will be submitted for each IPO. As of June 30, 2018, more than 20,000 investors were registered with CES and rising continuously.

e-IPO facilities by bankers to the issue

At present, United Bank Limited (UBL), Summit Bank Limited (SMBL) and Bank Alfalah Limited (BAFL) are providing e-IPO facilities to their accountholders. The UBL accountholders can also use UBL net banking to submit their application via link **http://www.ubldirect.com/corporate/ebank** .The SMBL accountholders can use SMBL net banking to submit their application via link **http://ib.summitbank.com.pk** .The BAFL accountholders can use BAFL net banking to submit their applications via link **https://ib.bankalfalah.com.pk**

Investors can submit online applications through CES and e-IPO facilities of UBL, SMBL and BAFL 24 hours a day during the subscription period.

Benefits of e-IPO

The e-IPO facility offers the following benefits:

- Investors can make applications for subscription of shares through internet without going to the bank and waiting in long queues.

- It is efficient and simultaneously facilitative for both the issuer and the investors;
- The facility is available 24 hours during the subscription period.
- It is cost effective.
- It is increasing the outreach of IPOs.
- The persons registered with the CES or accountholder of a bank providing e-IPO facility, will get SMS alert for new IPOs.
- By applying through CES, investors can also trace status of their applications.
- e-IPO will help a lot to make the whole IPO process efficient, increase investor base and shifting towards hundred percent demat-account culture.

In the recent IPO by At-Tahur Limited, 60% of the applications were received through CES or the banks' independent e-IPO facilities. Public response towards CES and e-IPO facilities of the banks is quite encouraging.

e-Dividend

Certain amendments were introduced to the regulations of CDC to facilitate listed companies in smooth and efficient distribution of cash dividends directly into the designated bank accounts of entitled shareholders. The amendments require CDS participants to obtain information pertaining to International Bank Account Number (IBAN) from their respective sub-accountholders. The SECP also advised all share registrars to collect IBAN related information from shareholders who hold shares of listed companies in physical form. This is to ensure availability of IBAN of all shareholders of the listed companies and it enables companies to directly credit cash dividend into IBANs of their respective shareholders. This arrangement will address shareholders complaints relating to non-receipt of announced dividends by listed companies and reduce postage expense of the issuers.

Corporate debt market reporting system (CDMRS)

To promote ease of doing business, SECP has developed and implemented a system called CDMRS for online reporting of issues of sukuk and debt securities and their redemption by the Debt Securities Trustees (DSTs) on behalf of their clients/Issuers. It is an efficient and cost effective system for reporting issues of Sukuk and debt securities and redemption thereof.

Promoting listing of privately placed debt securities

An efficient, broad-based and well-regulated Sukuk and debt market is vital for the development of a capital market. Companies can issue Sukuk and debt securities either by way of public offering or by way of private placement under Section 66 of the Companies Act, 2017. In order to encourage and facilitate listing of privately placed debt securities (PPDS), SECP has approved PSX's regulations for listing of privately placed debt securities.

Promotion of listing of SMEs

In order to facilitate and encourage listing of small and medium enterprises (SMEs), the SECP has advised PSX to run awareness campaign and consult the business associations and SMEDA. Accordingly, the PSX has held various awareness sessions and meetings with SMEDA, business associations and USAID team and finalized certain recommendations. These proposals for listing of SMEs at stock exchange are being reviewed by the SECP and PSX for implementation.

Developmental reforms

Centralized Customer Protection and Compensation Fund

Pursuant to promulgation of rules and regulations for establishment and operation of a Centralized Customer Protection and Compensation Fund under the Securities Act, 2015, the new Fund successfully replaced the Investor Protection Fund of the PSX. The fund is operational, offering adequate safety net to capital market investors against a broker's possible default.

Governance reforms at PSX

Following the completion of 20% offer of shares of PSX to the public and self-listing of PSX, the certain reforms in the governance structure of PSX were introduced to ensure that the public as minority shareholders should be given their due representation on the PSX board of directors. On the SECP's directions, PSX held fresh election of directors and independent directors were duly appointed to ensure due independence and neutrality on the PSX board.

Improved compliance with the IOSCO principles

Pakistan's compliance with the IOSCO principles of securities regulations improved significantly. Subsequently, IOSCO upgraded Pakistan's compliance rating in 10 out of 14 principles and Pakistan's overall compliance with the IOSCO principles increased from 62% in 2015 to 83% in FY-2018.

License to PSX as futures exchange

The SECP, under the Futures Exchanges (Licensing and Operations) Regulations, 2017, granted PSX a license to operate as a futures exchange. The license enabled PSX to continue offering equity derivatives products, i.e. deliverable futures contracts, cash settled futures contracts, index options contracts and stock index futures contracts under the Futures Market Act, 2016.

Reforms in the negotiated deal market (NDM)

To curtail unauthorized use of client assets and other possible malpractices linked with the NDM, certain reforms have been introduced. Now, the NDM transactions between the clients of the same broker are only allowed if one party to the transaction is a local financial institution using institutional delivery system facility of NCCPL or a foreigner. Moreover, all intra-participant transactions between broker's proprietary account and clients of such broker have been restricted where the broker is original buyer or seller to the transaction.

Liquid capital requirement for securities brokers

Liquid capital requirements for securities brokers specified under the Securities Brokers (Licensing and Operations) Regulations, 2016, were notified for implementation in April 2017. In light of amendments to these regulations, a revised notification, specifying liquid capital requirements for single category of securities brokers were issued. Securities brokers were granted an extension up to December 31, 2018, to meet the said requirements in a phased manner. Liquid capital presents a more accurate picture of the liquidity level of the broker and following its implementation, it is envisaged to be linked to the exposure taking capacity of a broker. Securities brokers are mandated to meet the minimum liquid capital requirements in a phased manner.

NCCPL awarded license as centralized KYC organization

In line with the Centralized KYC Organization Rules, 2017, the NCCPL was awarded a license as a centralized KYC organization (CKO) and related amendments to its regulations were approved. The concept of CKO envisages centralized KYC information source to avoid multiple submissions.

Category B for eligible securities in MTS and DFM

With the aim of increasing liquidity and activity in the margin trading system (MTS) and deliverable futures market (DFM), a new category B of eligible securities was introduced for trade. Required relevant regulatory amendments for the purpose were implemented. After incorporating relevant system changes, category B securities for DFM and MTS are now available for trading.

Commodity murabaha product

In order to meet the financing needs of Islamic financial institutions (IFIs) through Shariah modes, the SECP, in collaboration with the State Bank of Pakistan, approved a product on commodity murabaha and launched a pilot project while using the PMEX platform. During the pilot phase, a number of transactions were executed by the IFIs with other IFIs and corporates to meet their financing needs.

Futures commodity contracts

The SECP approved futures commodity contracts that include Brent crude, crude oil (1,000 barrels), copper (25,000 pounds), silver (5,000 oz) and international cotton (50,000 pounds). The new contracts were successfully launched at PMEX.

Futures currency contracts

The contracts relating to cross currency pairs, i.e. Eur/Yen, GBP/Eur, GBP/Yen, CHF/Yen, AUD/Yen, Eur/AUD, Eur/CHF and AUD/CAD, as well as US equity Indices – S & P, Dow and Nasdaq were also approved and successfully launched at the exchange platform.

Revamp of custody model – direct payment system

The SECP approved a concept paper envisaging a system to minimize custody-related risks . The proposed system shall have the functionality of direct credit to customers' bank account in case of sale of securities, among other salient features, enabling an enhanced investor protection environment. The NCCPL will implement the system after necessary system development and regulatory changes.

De-notification of collateral management services

Collateral management services have been de-notified as a form of business under Section 282A of Companies Ordinance, 1984, due to introduction of Section 457 of the Companies Act, 2017.

Regulatory reforms

E-dividend mechanism for companies

As per the requirements stipulated under Sections 242 and 243 of the Companies Act, 2017, the SECP promulgated and implemented the Companies (Distribution of Dividends) Regulations, 2017, with effect from November 6, 2017. Under these regulations, provisions have been specified with respect to time for payment of cash dividends, manner of payment of cash dividends through electronic mode directly into bank accounts designated by the entitled shareholders and manner of withholding dividends. To facilitate listed companies, the CDC Regulations were also appropriately amended, requiring every participant to obtain information of bank accounts with IBAN from all their sub-accountholders.

Revamp of the PSX penalty regime

The SECP approved amendments to the PSX rulebook to strengthen PSX's enforcement capacity. The roles and responsibilities of its chief regulatory officer and the Regulatory Affairs Department were improved and strengthened. The amendments also reduced the role of Board/Regulatory Affairs Committee in day-to-day regulatory affairs of the exchange. The penalties prescribed under the PSX Regulations were also raised to create a credible deterrence, in line with the best international practices.

Framework for companies in violation of PSX regulations

Amendments introduced to the PSX Regulations for a major overhaul of the regulatory framework governing the companies in violation/non-compliance of applicable laws. The revised regime enables earlier warning to investors, wider dissemination of defaults of such companies, stronger enforcement actions against such companies and their sponsors, directors and management, and earliest possible relief to the investors. Various additional grounds for placement of a company on the PSX defaulters' segment have been introduced. The approved amendments also address issues posed due to immediate suspension of companies' consequent to action by PSX under its regulations.

Promulgation/amendments to rules and regulations

Rules for establishment of a bond pricing agency

The rules to enable establishment of a bond pricing agency (BPA) were promulgated upon approval of the federal government after public consultation and the SECP's approval. BPA is envisaged to provide fair valuations of debt securities based on comprehensive data collection, validation, pricing, and dissemination to the stakeholders.

Sukuk (Privately Placed) Regulations, 2017

In order to facilitate the issuance of sukuk through private placement, the SECP notified the Sukuk (Privately Placed) Regulations, 2017, replacing the Issue of Sukuk Regulations, 2015. Part of Sukuk Regulations, 2015, relating to public offerings was covered in the SECP's Public Offering Regulations, 2017, through amendments therein.

Amendments to the Stock Exchanges (Corporatization, Demutualization and Integration) Regulations, 2012

Amendments to the Stock Exchanges (Corporatization, Demutualization and Integration) Regulations, 2012, were approved to allow foreign investors, other than foreign strategic investors, to acquire up to 10% shares of PSX, which can be increased by another 10% by the SECP.

Amendments to the NCCPL schedule of fee, charges and security deposits

Changes were made to the schedule of fee introduced regarding capital gains tax (CGT) tariff applicable to local and foreign institutional investors of futures commodity contracts according to value of trades and transactions executed at PMEX.

Amendments to Clearing Houses (Licensing and Operations) Regulations, 2016

These regulations were reviewed to harmonize them with the Futures Market Act, 2016, and amendments were made therein to incorporate provisions pertaining to licensing of a futures clearing house. Consultation was conducted with all stakeholders and opinion was elicited from public on draft of proposed amendments to Clearing Houses (Licensing and Operations) Regulations, 2016. Subsequently, the amended regulations were notified.

Amendments to Public Offering Regulations, 2017

In order to promote quality listing, ensuring fair price discovery through book building process and increase investors' base, certain amendments have been made to the Public Offering Regulations, 2017. The amendments include operational track record of the issuer for at least three years with two years profitability from its core business activities. The per share book value of the issuer shall not be less than its face value per share. Further, the sponsors of the issuer, shall be the same for last two years. These conditions, however, shall not apply in case of a green field project.

The amendments related to book building include introduction of the concept of price band with the upper limit of not more than 40% of the floor price. To increase the investor base, the basis of allotment changed from time priority basis to proportionate basis and the number of minimum bidders was increased from 40 to 100. The minimum bid size was raised from one million to two million rupees to ensure participation in the bidding process by the high net worth individuals.

Amendments to Securities Broker (Licensing and Operations) Regulations, 2016

After completion of the screening out and filtering process of the securities broker through stringent regulatory requirements, the SECP, with the objective of promoting ease of doing business for the brokerage industry without compromising the regulatory objectives, amended the Securities Broker (Licensing and Operations) Regulations, 2016, rationalizing the licensing regime for securities brokers. The salient features of these amendments are:

- Single licensing was introduced for the brokerage activity. This reduced the regulatory burden as a securities broker now required to obtain a single license instead of multiple mandatory licenses for undertaking brokerage activity in the capital market.
- A single cut-off date concept for expiry of licenses for entire brokerage industry was introduced.
- The existing procedure of annual renewal of the securities broker was simplified, requiring only PSX recommendation, an undertaking from securities broker and depositing of regulatory fee.

Amendments to the Securities and Futures Advisers (Licensing and Operations) Regulations, 2017

The SECP amended the Securities and Futures Advisers (Licensing and Operations) Regulations, 2017, making the advisory regulatory regime more practicable and conducive. The following concepts were introduced through amendments:

- The mandatory advisory licensing requirement for securities brokers was withdrawn, and the securities brokers have been allowed to provide securities advisory to their brokerage customers, being incidental to the conduct of their business without receiving any separate compensation thereof.
- The securities brokers were allowed to distribute units of mutual funds and voluntary pension funds of multiple assets management companies (AMCs).
- Considering the dynamics of local capital markets, the SECP has decided to grant license to only corporate entities for undertaking any regulated activity in the capital markets. Licenses will not be issued to any individual.
- In order to broaden the investor base, banks were allowed to distribute units of mutual funds and voluntary pension funds of multiple AMCs, subject to certain regulatory requirements.

The rationalized licensing regime for securities brokers and securities advisors coupled with other measures introduced by the SECP would definitely reduce regulatory burden and cost of doing business for capital market participants and provide ease of doing business.

Amendments to the regulations of front line regulators

The SECP also encouraged the front line regulators to upgrade their regulations by amending them and to strengthen their regulatory frameworks. Subsequently, the front line regulators such as PSX, CDC and NCCPL made the following amendments to their regulations.

The regulations of the CDC and NCCPL were amended to

- Include IBAN information in registration details in Central Depository System (CDS) for facilitating electronic payment of cash dividends directly into the designated bank accounts of the client;
- Prescribe treatment of sub-accounts opened without sub-account opening form (SAOF) and submission of information about capital adequacy level by the TREC holder to the CDC for the purpose of asset under custody (AUC) regime;
- Rationalize procedural requirements relating to deposit and withdrawal of securities in the central depository system;
- Introduce enforcement powers of chief compliance officer of CDC in place of CEO as required under the Central Depositories (Licensing and Operations) Regulations, 2016;
- Report net worth for determination of limits for assets under custody (AUC);
- Implement mechanism for controlling acquisition of shares in a listed bank in excess of 5%. The SBP has imposed this restriction under its regulatory framework and requested SECP to deploy some mechanism to ensure said restriction on investors;
- Develop mechanism for treatment of listed securities under the Voluntary Declaration of Domestic Assets Ordinance, 2018 (tax amnesty);
- Rationalize procedural requirements relating to deposit and withdrawal of securities in the central depository system;
- Change the CDC schedule of fees and deposits to institute ceiling on fee for fresh issuance of redeemable securities; and
- Consider T-Bills as acceptable collaterals for all market segments where margin eligible securities are accepted as collateral.

The PSX regulations were amended to

- Charge revalidation fee on companies seeking fresh approval of prospectus approved earlier by the exchange;
- Remove Code of Corporate Governance provisions from PSX Regulations pursuant to promulgation of the Listed Companies (Code of Corporate Governance) Regulations, 2017;
- Include additional descriptions for price-sensitive information in light of Board of Investment (BOI) recommendations shared under the World Bank exercise for improving ease of doing business indicators in Pakistan;
- Prescribe requirements for brokers to submit quarterly, half yearly and annual financial statements/reports and any other required information to the PSX or the SECP;
- Rationalize initial and annual listing fee structure applicable on listing companies as provided in the PSX Regulations on the recommendations of PSX. The revised structure entails a reduced cap on initial listing fee with phased increase in the annual listing fees;
- Mandatorily require brokers to register UIN details of their employees in NCCPL database within a period of five working days;
- Streamline the process of buyback of shares by companies in case of delisting from PSX, whereby the requirements of submission of bank guarantee from the purchase agent at the time of submission of application and again upon finalization of the purchase price have been replaced with submission of bank guarantee only upon approval of final purchase price;
- Permit sponsor brokers to utilize PSX's shares for BMC purposes and notional value of TREC was rationalized;
- Align the short sale/blank sale framework with the Securities Act and the Securities Brokers (Licensing and Operations) Regulations; and
- Rationalize the basis for initial and annual listing fees for mutual funds and exclude open-end mutual funds from closed period and book closure requirements.

Future outlook

Increasing the investor base from 300,000 to 400,000

The SECP shall take the following steps to enhance the investor base:

Expansion in the number of CDS participants

The Central Depository Company (CDC) will be followed up to approach all the remaining commercial banks for acting as participant of its Central Depository System (CDS). As of June 30, 2018, only four banks were acting as CDS participants for opening and maintaining CDS sub-accounts for retail investors. This will facilitate the investors in remote areas to locally open and maintain sub-accounts through the bank branches in their own localities.

Investor education initiatives

The Licensing and Regulatory Approvals Department (LRAD) of the SMD will extend its coordination with the Investors Education Department to include certain material in the SECP's investors' education programs to attract new investors. This education material will be related to investment in securities through IPOs, procedure for opening of CDS account, available sources through which investors can open and maintain CDS accounts, benefits of holding securities in book entry form, etc.

Expansion of the centralized E-IPO system

Successful introduction and implementation of CES has facilitated investors' participation in IPOs. Investors can now make applications for subscription of securities through internet banking, mobile phones and ATMs without going to the banks and waiting in long queues. As of June 30, 2018, nine banks had joined the CES. The LRAD shall persuade the CDC and 1 Link (G) Ltd. to follow up with the rest of the banks to join CES.

Expected growth in the IPO market owing to awareness initiatives by SECP, privatization program of GOP, upcoming CPEC projects and government initiatives for facilitating business in the country will help increasing the investor base through CES.

Establishment of bond pricing agency

For development of debt market, efforts will be made for establishment of an independent bond pricing agency under the Bond Pricing Agency Rules, 2017, to provide fair valuations of debt securities based on comprehensive data collection, validation, pricing, and dissemination to the stakeholders.

Shariah-compliant leverage products

To provide investors with Shariah-compliant investment alternatives, conceptual model for introduction of Shariah-compliant financing product at NCCPL is being finalized and efforts for implementation of Murabaha Share Financing System for capital market participants are underway. Introduction of a Shariah-based trading platform at PSX in consultation with relevant stakeholders is also being considered.

Development of derivatives market

Efforts will be made to launch and bolster activity in the derivatives market, especially index options, single stock options and cash settled futures, to provide investors with hedging/investment alternatives.

Launch of ETF market

The SECP has constituted a committee of key stakeholders to explore the launch of Exchange Traded Funds (ETFs) in Pakistan. In coordination with other market infrastructure institutions and MUFAP as the key stakeholder. PSX is finalizing the product model and requisite regulatory support for enabling early launch of the product.

Market halts and widening of scrip level circuit breakers

The introduction of index-based market halts with gradual widening of the circuit breakers in a phased manner is being explored by the SECP. This will ensure more efficient price discovery and enhance liquidity at the securities exchange.

Efficient custody model, i.e. direct payment system (DPS)

The NCCPL is working on necessary system development and regulatory changes for early introduction of DPS, which will enable enhanced investor protection through minimizing custody-related risks.

Rationalized tariff structure for public unlisted and private limited companies for fresh issuance of shares

In terms of Section 72 of Companies Act, 2017, the companies are required to replace their securities in book-entry form within the specified period notified by the Commission. The SECP is endeavoring to rationalize tariff structure for public unlisted and private limited companies pertaining to de-materialization of existing and fresh issuance of shares. In first phase rationalized tariff structure for public unlisted companies has been approved by the SECP.

Electronic IPO through facilitation account for non-resident and foreign investors

After the withdrawal of group account facility in May 2005, the number of applicants in IPO opting for securities in book entry form in the CDS declined substantially. Moreover, the revised Public Offering Regulations, 2017, issued by the SECP on January 5, 2018, place a mandatory requirement on issuers that all securities offered in an IPO shall only be issued in book-entry form. Considering the above and in order to facilitate individual resident and non-resident Pakistani potential investors who have no depository account and intend to subscribe to securities offered through initial public offering, the concept of IPO facilitation account (IFA) is being introduced. The initiative will also help increase the investor base of the capital market.

Custody risk mitigation in commodity market

In order to mitigate customers' asset custody risk, new measures are being introduced in risk management framework of the PMEX by incorporating direct cash inflow/outflow management with the underlying client and bypassing the broker.

Implementation of recommendations of USAID FMD project

The SECP will take all essential measures to implement the recommendations made by the USAID under its Financial Market Development (FMD) project. These recommendations pertain to the promotion and development of SME Board provided in its report dated February 11, 2017.

IPO seminars

The purpose of the IPO seminars is to create awareness among the potential issuers/IPO companies using capital market as an additional avenue for fund raising against issuance of securities (shares, sukuks, TFCs etc.), benefits of listing, procedure and criteria for listing, public offering process, etc. These seminars also bring together all the stakeholders, i.e. the issuers, underwriters, consultants, bankers, trustees, share registrars, depository company, securities exchange and the regulator on one platform to share their ideas for promoting the IPO market. The IPO seminars thus help in developing the IPO market.

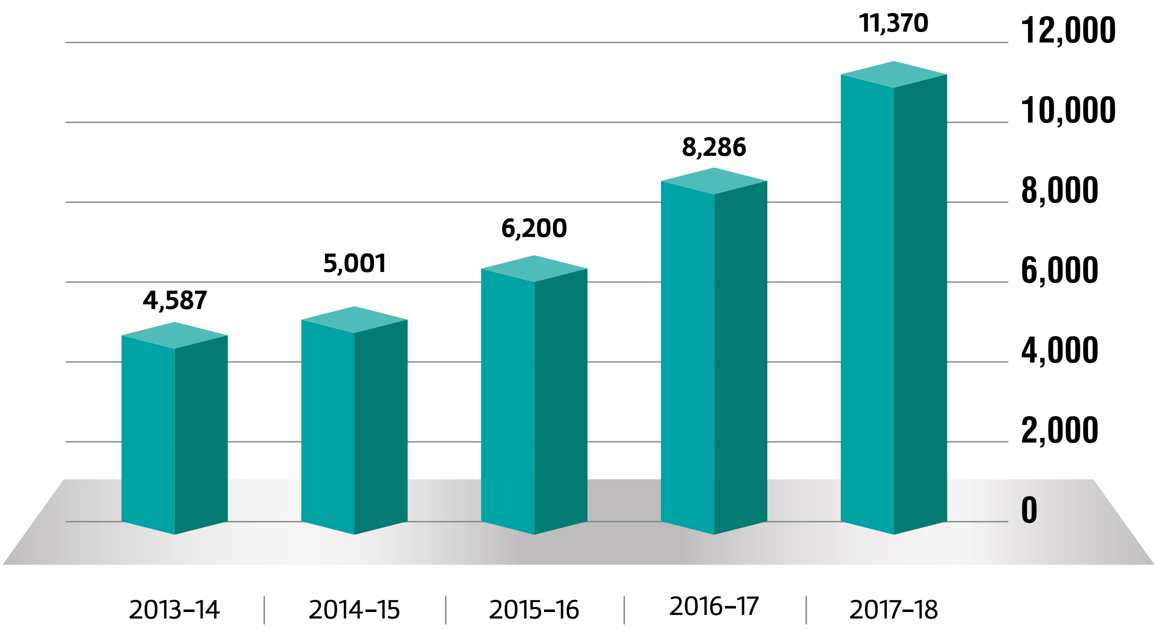
Corporatization

Sector overview

Incorporation of companies

During FY-2018, the SECP registered a total of 11,370 new companies, 37% more as compared to the corresponding period of last fiscal year. The total number of registered companies reached to 87,620. Approximately 80% companies were registered as private limited companies, 18% were registered as single-member companies and two percent got registered as public unlisted, association not-for-profit, trade organizations, foreign companies and limited liability partnerships.

Number of companies



The trading sector took a lead with the incorporation of 1,688 companies, followed by services with 1,632 and information technology with 1,375. Furthermore, 1310 companies got themselves registered in construction, 571 in tourism, 401 in food and beverages, 373 in engineering, 340 in corporate agricultural, 330 in education, 311 in real estate development, 215 in transport, 203 in pharmaceutical, 186 in textile, 173 in communication, 172 in healthcare, 161 in autos and allied, 160 in fuel and energy, 135 in broadcasting and telecasting, 124 in mining and quarrying, 113 in chemical, 107 in cable and electric goods, 105 in logging, 102 each in power generation and paper and board board. Nine hundred and eighty-one commonalities were registered in other sectors.

Foreign investment was reported in 636 new companies. These companies have foreign investors from Afghanistan, Argentina, Australia, Austria, Azerbaijan, Belarus, Belgium, Canada, Cayman Islands, Chile, China, Czech Republic, Denmark, Egypt, France, Germany, Hong Kong, Indonesia, Iran, Italy, Jamaica, Japan, Jordan, Kenya, Lebanon, Macedonia, Malaysia, Mexico, Nepal, the Netherlands, Nigeria, Norway, Oman, Panama, Philippines, Poland, Portugal, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Syria, Taiwan, Tajikistan, Tanzania, Turkey, Ukraine, UAE, UK and the United States.

Moreover, 55 foreign companies from Australia, Bahrain, Canada, China, Denmark, France, Germany, Hong Kong, Italy, Malaysia, the Netherlands, Saudi Arabia, Singapore, South Korea, Switzerland, Turkey, the UAE, the UK and the US have established places of business in Pakistan during the last fiscal year. These companies are engaged in the fields of banking and finance, communication, construction, education, engineering, healthcare, services, power generation, trading, transport, fuel and energy, information technology, steel and allied and other sectors.

License under Section 42 of the Companies Act

During the year, the SECP issued 70 licenses to non-profit associations under Section 42 of the Companies Act 2017. The object-wise details are given below:

Licenses issued to non-profit companies u/s 42 of the Companies Act during 2017-2018	
Object-wise breakdown	**Number of associations**
Art	1
Sports	1
Social services	10
Charity	10
Others	48
Total	**70**

Licensing of regulated persons

No person can perform the regulated securities activities and other regulated activities defined under the Securities Act, 2015, and the Futures Market Act, 2016, unless he/she is licensed under the Securities Act and Futures Act (as the case may be) read with the regulations made thereunder.

Accordingly, the SECP processes and examines applications for licensing of securities brokers, debt securities trustees (DSTs), underwriters, share registrars and balloters, bankers to the issue, consultants to the issue, credit rating companies, securities and futures advisors and futures brokers for commodities etc. The various regulations under which the licenses are issued include the Securities Brokers (Licensing and Operations) Regulations, 2016, Debt Securities Trustee Regulations, 2017, the Public Offering (Regulated Securities Activities licensing) Regulations, 2017, the Share Registrars and Balloters Regulations, 2017, the Credit Rating Companies Regulations, 2016, Securities and Futures Advisors (Licensing and Operation) Regulations, 2017, and Commodity Exchange and Futures Contract Rules, 2005.

Details of the licenses granted during the last one year are as under:

Type of entities	2016-17	2017-18	New registrations	Licenses expired/ cancelled
Securities brokers	248	229	0	19
Debt securities trustees	16	12		4
Underwriters	41	44	3	-
Share registrar and balloter	20	20	-	-
Bankers to an issue	-	06	06	-
Consultants to the issue	-	15	15	-
Credit rating companies	02	02	-	-
Securities and future advisers	1	9	8	0
Futures brokers for commodities	139	128	11	22

Regulatory functions

Monitoring of beneficial ownership

The SECP monitors trading activities of beneficial owners of listed companies through filing of online annual returns by the listed companies and trading data of PSX along with returns filed by the beneficial owners. The primary objective of this monitoring is to detect the instances, where gain made by the beneficial owners through purchase and sale or sale and purchase of shares of issuer companies within a period of less than six months, and recovering the same for onward credit to the Federal Consolidated Fund.

The SECP received 2,650 returns both from the listed companies and beneficial owners during the period under review. The returns received during the last three years along with the percentage change are as under:

Returns received				
Year	2016	2017	2018	Growth form 2017
Number of returns	2,505	2600	2650	1.92%

Development of BO module for online filing of form 5, 6 and 7

For ease of business process, improve efficiency and to facilitate the Beneficial Owners of the listed companies, the Commission has developed a Module for online filing of Form-5, Form-6 and Form-7 through eServices Process of the Commission (filing required under Section 103 and 104 of the Securities Act, 2015) and implemented.

Approvals, permissions, inspection of record, issuance of copies and registration of charges

Under the provisions of the Companies Act, 2017, 154,651 applications seeking regulatory approvals, inspection of record, issuance of copies and registration of charges were received. After due consideration necessary approvals were granted as follows:

S. No.	Relevant Section of the Act	Nature of approval/permission sought	Total
1	Section 32	Amendment to memorandum and articles of association	255
2	Section 10	Availability of name	18,256
3	Section 12	Change of name	466
4	Section 42	Grant of license and renewal of license to associations	111
5	Section 455	Registration of intermediary	152
6	Section 46	Conversion of public companies into private companies	25
7	Section 83	Further issue of capital	1,242
8	Section 100, 106,109	Registration, modification, satisfaction of charge	17,556
9	Sections 132	Extension in period for holding of AGMs by unlisted public and private companies	215
10	Section 246	Appointment of auditors	2,539
11	Section 47	Conversion of status from private to SMC	13
12	Section 466(6)	Issue of certified copies of documents	87,859
13	Under section 425	Restoration of companies	19
14	Regulation 19 of the Companies (Registration Offices) Regulations, 2018	Inspection of records maintained with CROs	17,148
15	Public Sector Companies (Corporate Governance) Rules, 2013	Relaxation granted to public sector companies from the requirements of the Rules	23
16	Others	Other sections of the Act	67
17	Miscellaneous	Provision of information to different agencies and other government departments.	8,705
Total			**154,651**

Schemes of arrangements

The merger/de-merger under scheme of arrangements enable companies to consolidate their resources, achieve synergies in business operations and exploit tax planning opportunities. It also enhances a company's capacity to deal with systemic risk and increase its market presence through conglomeration. Powers to regulate scheme of arrangement are vested in the SECP under the Companies Act. However, Federal Finance Minister is empowered to assign the SECP's powers to a court of law in respect of any class of companies. Federal Finance Minister assigned the SECP's powers to High Court in respect of public interest companies, large-sized companies and medium-sized companies whereas, scheme of arrangement of small-sized companies is regulated by the SECP.

Before approving schemes of arrangements, courts take into consideration representations made by the registrar in respect of such schemes. The department, while making representation to courts through registrar ensures that schemes of arrangements proposed by the companies are not prejudicial to the interests of minority shareholders. The cases dealt by the CSD during the preceding three years are as follows:

Particular	2016	2017	2018
Scheme of arrangements	24	26	23

Regulatory applications/approvals

The SECP's Corporate Supervision Department processes applications of listed companies for granting regulatory approvals under the applicable legal regulatory framework. Applications include extension in time to hold annual general meetings and submit first quarterly accounts, exemption from preparation and filing of consolidated accounts, placement of quarterly accounts on website, group companies' registration and approvals for extension of loans to directors etc. Data relating to processing of applications for the preceding three years is given here.

Application for other regulatory approvals			
	2016	2017	2018
Appointment of cost auditors	52	48	8*
Withholding of dividend	133	28	17**
Extension in time to hold AGM	21	31	36
Extension of first quarterly accounts	-	-	21
Exemption from preparation and filing the consolidated accounts	19	16	13
Placement of quarterly accounts on website	291	295	295***
Group companies registration/ deregistration	8	7	7
Approvals for extension of loans to directors of a company	5	1	3
Others	-	-	10

** In terms of requirements of Section 250 of the Companies Act, requirements relating to audit of cost accounts are not applicable, as the SECP has not issued any directive for mandatory cost audit.*

*** In terms of requirements of Section 243 of the Act, companies without the SECP's approval may withhold the payment of dividend of a member where the member has not provided the complete information or documents as specified by the SECP.*

**** The figure represent the cumulative number of approvals granted over the years.*

Amalgamation and reconstruction of companies under the Act

During the year, 22 applications for amalgamation and reconstruction were received out of which 07 applications were approved by the courts.

Exemptions from requirements of the Code of Corporate Governance

The department processed applications from listed companies, seeking relaxation from requirements of Code of Corporate Governance, 2012, which was subsequently replaced by Listed Companies (Code of Corporate Governance) Regulations, 2018, w.e.f. January 1, 2018. Exemptions from certain requirements of the code/ regulations are provided in cases where the applicant companies demonstrate reasonable grounds and practical difficulties to comply with legal requirements. Out of 23 applications processed by the department during the year, 7 were approved, 10 were rejected and 6 were under process for want of deficient information from companies.

Here is a summary:

Code of corporate governance cases			
	2016	**2017**	**2018**
Applications approved	-	4	7
Applications rejected	-	2	10
Applications in process	-	4	6
Total	**-**	**10**	**23**

Measures for ease of doing business

The SECP, being an apex regulatory body, is fully cognizant of the importance of "ease of doing business". It has introduced a number of reforms to reduce the cost of doing business, leading to a robust corporate growth and documented economy in the country. The following reforms have been introduced to reduce the cost of doing business in Pakistan.

- Company registration within four working hours
- Introduction of single online procedure for name reservation and company incorporation which has reduced number of procedures and time for company registration
- Launch of one window facility for company incorporation and NTN registration
- Reduction in doing business cost of companies by merging of several statutory forms
- Agreement with 1-link to provide fee payment facility through ATM and internet banking
- Establishment of online service center along with the improvement in the facilitation counters

Promulgation/amendments to rules and regulations

Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017

The Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017, require listed companies to provide material disclosures to members regarding investment in associated undertaking to facilitate informed decision making in terms of Section 199 of the Companies Act. The section requires special resolution of members before making any investment in associated companies or undertakings. Moreover, the exemption from requirement of obtaining members' approval under Section 199 to certain classes of companies was also granted through S.R.O. 1239 (I)/2017 dated December 6, 2017. This exemption has been allowed to facilitate expeditious decision making in cases where probability of conflict of interest to the disadvantage of minority interest is minimal.

Listed Companies (Code of Corporate Governance) Regulations, 2017

The Listed Companies (Code of Corporate Governance) Regulations, 2017 replaced the Code of Corporate Governance, 2012, which was issued under the PSX listing regulations. The regulations are aimed at aligning corporate governance practices with the best international standards, strengthening role and responsibilities of directors, encouraging independent decision-making, supporting gender diversity and mechanism for transparency and accountability. The regulations also stipulate basic eligibility criteria for key positions.

Companies (Postal Ballot) Regulations, 2018

The Companies (Postal Ballot) Regulations, 2018, provide simplified mechanism for e-voting provider, conduct of e-voting and postal ballot to encourage shareholders' representation in general meetings in companies having geographically dispersed shareholding. The regulations facilitate participation of members in the decision-making process by allowing them to cast votes through secured electronic means or through ballot papers.

Companies (Manner and Selection of Independent Directors) Regulations, 2018

The Companies (Manner and Selection of Independent Directors) Regulations, 2018, are to specify the manner and procedure of selection of independent directors from databank maintained by authorized institute, i.e. Pakistan Institute of Corporate Governance (PICG), who possess requisite qualifications, experience and ancillary requirements. In addition, these regulations provide modus operandi for inclusion of details in databank and access of databank by directors and companies.

Auditors (Reporting Obligations) Regulations, 2018

Auditors (Reporting Obligations) Regulations, 2018 are to align audit report formats on annual and half-yearly financial statements of different class of companies in accordance with international standards on auditing. Moreover, regulations also prescribe reporting format for reporting on statement of compliance with the Code of Corporate Governance.

Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018

The Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018, replaced existing rules governing investment of provident funds in listed securities. The new regulations provide additional safeguards to protect investment of contributory funds through introduction of conditions and restrictions on amount of investment in debt and equity securities.

Notifications/circulars issued during the year

- Notification specifying a time period of 45 days for shareholders to provide valid information to complete arrangements for making payment of cash dividends through electronic mode vide SRO 421(I)/2018 dated April 2, 2018.
- Amendment to third, fourth, and fifth schedules to the Companies Act, 2017, to remove impediments to the implementation of subject schedules of the Act while preparing financial statements.
- Notification of minimum disclosures to be contained in statement of material facts in respect of special business to be transacted in general meeting to facilitate standardization and informed decision making by members of companies.
- Definition of public interest company was issued vide SRO 360(I)/2018 dated March 15, 2018. It was done through notification under clause (i) of Section 36H of the Securities and Exchange Commission of Pakistan Act, 1997.
- Notification under Section 183 (2) (j) of the Act containing the limit regarding leasing obligations issued vide SRO 75(I)/ 2018 dated January 25, 2018.
- Notified PICG to create and maintain data of directors willing to act as independent directors under Section 166 of the Act through SRO 73(I)/2018 dated January 25, 2018.
- Adoption of IFRSs (IFRS 9 and 15) notified on October 4, 2017 through SRO 1007(I)/2017.
- Adoption of IFRSs (IFRS 16) notified on April 7, 2018, through SRO 434(I)/2018.
- Circular 31 of 2017 dated November 30, 2017, was issued, advising companies to conspicuously place the SECP's web-linked logo on homepage of their website. Logo is linked to the SECP's investor grievances and queries to provide easy access for lodging complaints and queries.
- Circular 24 of 2017 dated October 19, 2017, for electronic transmission of annual and quarterly financial statements of listed companies to the SECP.

Future outlook

Subordinate legislation under the Companies Act, 2017

- Notification of final Companies (General Provisions and Forms) Regulations, 2018
- Notification of final Foreign Companies Regulations, 2018
- Notification of draft easy exit regulations 2018
- Companies (Issue of Further Shares) Regulations, 2018
- Related Parties (Transactions and Maintenance of Related Records) Regulations, 2018

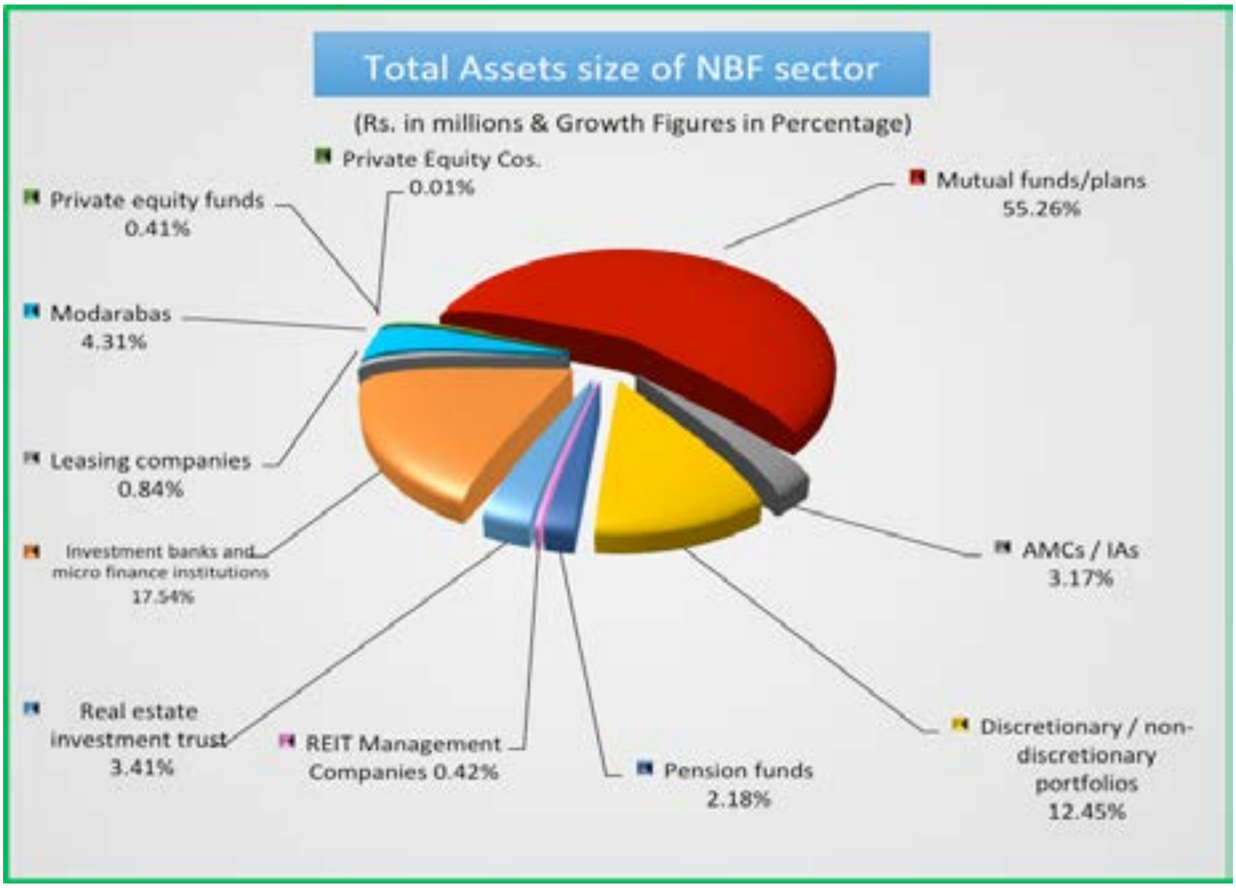
Developmental activities and facilitation measures

- The establishment of state-of-the-art facilitation centers at CRO Karachi, Lahore and Islamabad
- Revamp of eServices
- Integrating eServices with the Sindh Business Registration Portal
- Implementation of Companies (General Provisions and Forms) Regulations, Foreign Companies Regulations, Intermediaries (Registration) Regulations, in eServices
- Activation drive for dormant companies
- Seminars/conferences on benefits of corporatization and eServices
- Publication of brochures/guides to create awareness among public
- Updating of website to provide upto date information to stakeholders

Non-banking financial sector

Sector overview

The asset size of NBF sector has been increasing at a steady pace during the past few years. On June 30, 2018, it stood at Rs1,228 billion as compared to Rs1,196 billion on June 30, 2017, reflecting an overall increase of 2.7%. The diagram and table below illustrate the details of the total asset size of the NBF sector as of June 30, 2018:



Sector	Number of entities	Total assets (in million rupees)	As percentage of total assets	Total deposits (in million rupees)
Mutual funds/plans	244	678,859.81	55.26%	
AMCs/IAs	21	38,998.00	3.17%	-
Discretionary/non-discretionary portfolios	-	152,937.00	12.45%	-
Pension funds	19	26,828.01	2.18%	
REIT management companies	5	5,106.00	0.42%	-
Real estate investment trust (REIT Scheme)	1	41,840.00	3.41%	
Investment banks and micro finance institutions	35	215,480.42	17.54%	6,433.74
Leasing companies	7	10,359.00	0.84%	499.28
Modarabas	29	52,941.00	4.31%	9324.84
Private equity companies	2	172.00	0.01%	-
Private equity funds	2	4982.00	0.41%	-
Total	**365**	**1,228,503.24**	**100%**	**16,257.86**

Asset management

As of June 30, 2018, the total size of the industry stood at Rs678 billion and the total number of funds was 244. As of June 30, 2018, equity funds dominated the AUMs of the industry with the largest share of the mutual fund industry, i.e. 25.56%, while money market funds held the second largest industry share, i.e. 18.88%, followed by Islamic equity funds with industry share of 15.74%.

In order to further foster growth of the mutual fund industry and to safeguard the interests and rights of the investors, the SECP instituted several regulatory reforms.

Product diversification

Focusing on product innovation and the use of technology in the industry, the SECP allowed the following products:

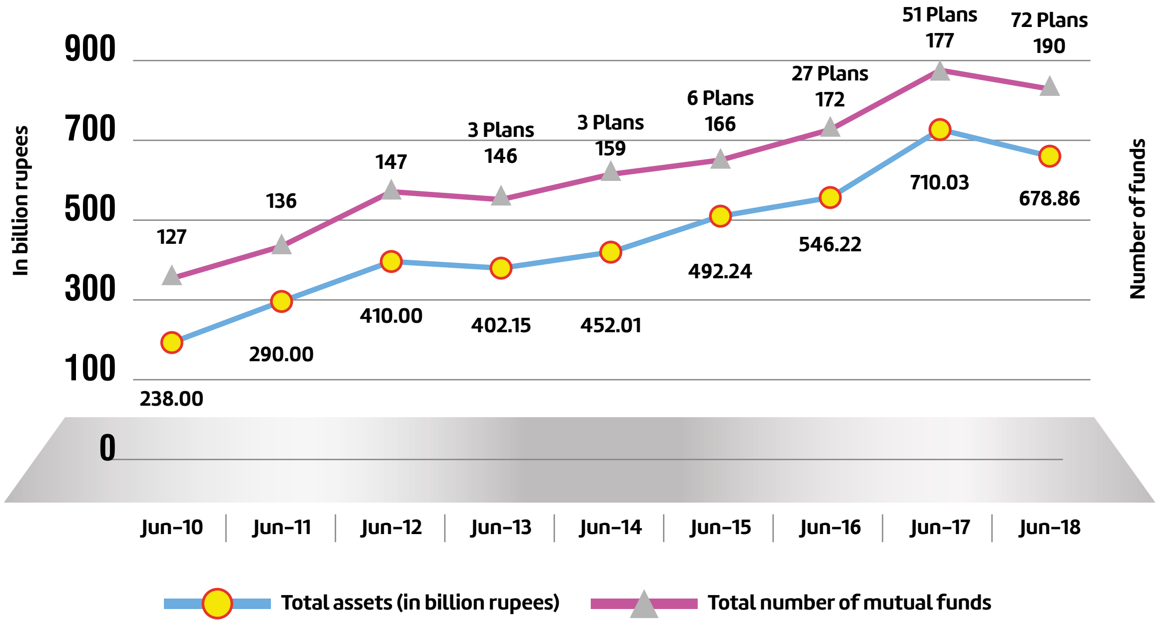
- AMCs have been allowed to re-launch constant proportion portfolio insurance based collective investment schemes to enable the industry to diversify its products and offer investors more options and avenues to invest.
- New sector specific funds were launched covering energy and financial sectors.
- One AMC was allowed to launch daily dividend fund to provide regular stream of income to investors.

Liquidity management of mutual funds

In order to facilitate the mutual fund industry, the requirement of minimum cash and cash equivalent for equity funds has been revised.

Trend of total assets and number of mutual funds and plans

(Annual growth of total assets in percentages)



Technological innovation

For expansion of business through technology, AMCs have launched;

- Online investor account opening for low-risk customers
- Online investment, redemption and conversion in mutual funds
- Mobile application for investment in mutual funds

Investment advisory

At present, 19 AMCs have licenses to conduct the business of investment advisory in addition to business of asset management services while two NBFCs have exclusive licenses to offer investment advisory services.

Private fund management

Two NBFCs have been granted licenses to undertake private equity and venture capital fund management services. The details of these companies as of June 30, 2018 are as follows:

S. No	Names of companies	Total assets (in million rupees)
1	PNO Capital Limited	88
2	Ijarah Capital Partners Limited	84
Total		**172**

Size of private equity funds as of June 30, 2018

S. No	PE fund name	Total assets (in million rupees)
1	PNO Pakistan Fund-1 (Plan A)	589
2	Pakistan Emerging Market Fund-1	4,393
Total		**4,982**

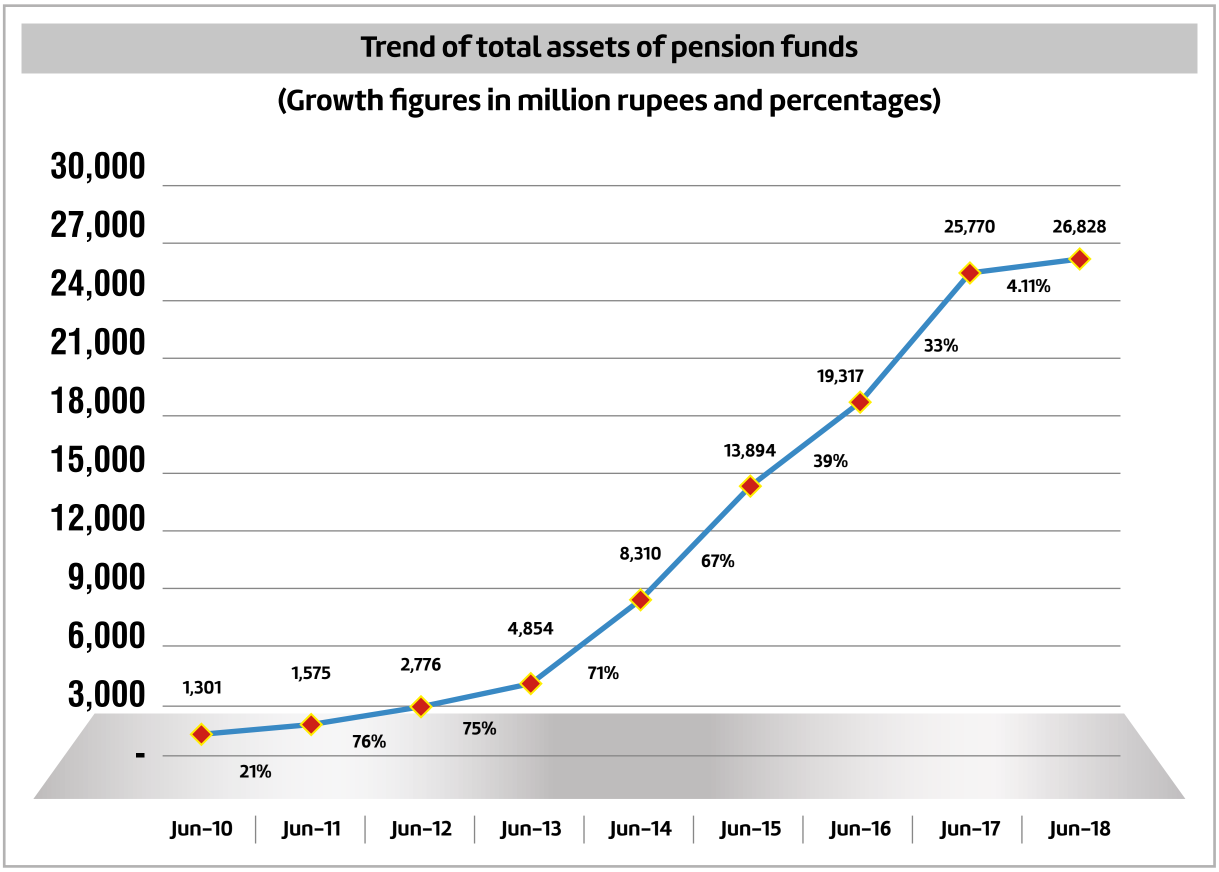
Voluntary pension system

As of June 30, 2018, the total assets of the pension schemes stood at Rs26.8 billion out of which 64% were invested in Sharia-compliant and 36% in conventional pension funds. The key statistics in respect of pension fund industry as of June 30, 2018 are as follows:

Total assets of pension fund industry	Rs26.8 billion
Total number of pension funds	19
Shariah-compliant pension funds	10
Conventional pension funds	9
Number of pension fund managers	10

Amendments to the Voluntary Pension System Rules, 2005, were made and notified, helping the industry function effectively and efficiently. The SECP also rationalized the sales load/front end load charged from participants/investors to facilitate growth of pension funds. The sales load has been capped at 1.5% if the participants approach the fund managers or if the investment is made online. In addition, no sales load will be charged on any subsequent contribution made by a participant directly, through employer or online.

The position of total assets and number of pension funds is as follows:



Real estate investment trusts (REITs)

In, all five REIT management companies are registered with the SECP, having accumulated asset value of Rs5,106.00 million, as of June 30, 2018. However, there is only one REIT scheme, i.e., Dolmen City REIT (DCR) with a fund size of Rs22.23 billion. The dividend yield by DCR for the year stood at 12%.

On the SECP's proposal, the rate of tax on dividend received by corporate unitholder of a REIT has been reduced from 25% to 15%, vide Finance Act, 2018. In addition, the tax rate applicable to dividend received by an individual unitholder from a rental REIT was also reduced to 7.5% to encourage investment in rental REIT schemes. Furthermore, the tax on dividend received by a unitholder from a developmental REIT scheme set up by June 30, 2020, for development and construction of residential buildings will be reduced by 50% for three years from the date of setting up of the scheme.

The SECP held a number meetings with the stakeholders of REIT industry wherein they highlighted their problems and proposed actionable recommendations for REIT development in Pakistan. As a result of these consultations, it was agreed to address the issue of segregation of documentary requirements with respect to developmental and rental REITs. In order to facilitate RMCs, changes in the requirements related to vacant/partially occupied properties are also being considered. Investment of surplus funds in real estate as well as allowing of borrowing against REIT assets will also boost the market development of the REIT industry in Pakistan.

Lending non-bank finance companies (NBFCs)

Lending NBFCs are licensed to undertake leasing, investment finance services, housing finance services or discounting services. Companies licensed to carry out investment finance services include investment finance companies (IFCs) and non-bank microfinance companies (NBMFCs), which were brought into SECP's regulatory ambit pursuant to amendments to the NBFC regulatory framework in 2015.

During the last few years, the SECP reviewed and reassessed the complete regulatory framework for lending NBFCs for any barriers to growth. Many of the regulatory impediments were highlighted and removed by making necessary amendments to the law governing NBFCs. The SECP is continuously striving to remove the barriers that may impede their growth. These measures will help alleviate poverty by providing necessary funding support to the most marginalized segments of society.

Leasing companies

A downward trend was witnessed in the asset size of leasing companies in 2017-18, largely due to the conversion of one large leasing company into an investment finance company. As a result of this conversion, the asset size of leasing companies decreased from Rs43.3 billion as of June 30, 2017 to Rs10.359 billion on June 30, 2018. A new leasing company was also awarded a license during the year.

Investment finance companies

The number of investment finance companies remained unchanged at 10 since June 30, 2017. During the year, one investment finance company ceased to exist as it merged into a brokerage company whereas one large leasing company was converted into an investment finance company. As a result of this conversion, the asset size of investment finance industry increased from Rs81 billion as of June 30, 2017, to Rs118 billion as of June 30, 2018.

Non-bank microfinance companies

The SECP made serious efforts and adopted a number of changes to the regulatory framework to ensure smooth transition of microfinance institutions (MFIs) into non-bank microfinance companies (NBMFCs). In a bid to facilitate transition of microfinance institutions into NBMFCs, the SECP remained engaged in constant consultation with the industry association, Pakistan Microfinance Network (PMN) and the premier funding agency of the sector, Pakistan Microfinance Investment Company (PMIC).

Moreover, the SECP also proposed amendments to the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, pertaining to defining threshold for licensing requirements and for setting up of wholly owned non-financial subsidiaries by an NBMFC. Earlier, an NBMFC could not make investment in a non-financial sector, but the present amendment would allow an NBMFC to invest in its wholly owned nonfinancial subsidiaries for multiple purposes, including education and rural development etc.

As of June 30, 2018, 25 microfinance institutions had been successfully licensed with total assets of Rs97.17 billion. The assets of companies licensed to provide investment finance services, including investment banks and non-bank microfinance companies have thereby grown significantly to a total asset size of Rs215.48 billion. As of June 30, 2018, the total asset size of the lending NBFCs is as follows:

Total assets	Sector	Number of entities
Lending NBFC		In billion rupees
IFCs	10	118
NBMFCs	25	97
Leasing companies	07	10
Total	**42**	**225**

Modaraba

Due to popularity of Islamic financial products and enhanced awareness about modaraba institution among the masses, investors have started showing interest in establishing modarabas. During the year under report, after a long time, two new modarabas, having the equity of around Rs1,050 million were floated and listed on the securities exchange. This shows the overwhelming confidence of the entrepreneur in the Islamic mode of business, especially in modarabas. It has been observed that asset rental business is becoming popular among the masses.

Further, the SECP proposed new Modaraba Bill containing a number of significant changes in the legal framework for Modarabas. More than 37-year old, the Modaraba Ordinance, 1980, is being replaced with a modern piece of legislation providing enhanced right to the certificate holders of modaraba and for improving its utility for the business community and the economy as a whole.

The SECP also completed consultation with the stakeholders on the proposed bill and after the approval of the Commission, the final Modaraba Bill has been sent to the Ministry of Finance for placing the same before the federal cabinet for its approval and subsequent placing in the parliament.

Future outlook

- Strengthening the internal controls and risk management framework in the mutual fund industry
- Facilitating the distribution of investment products through the use of technology
- Improving the selling and distribution norms of mutual fund industry through more disclosures
- Encouraging the launch of passive investment products with low-fee structure
- Encouraging the launch of private funds as an alternative investment vehicle
- Facilitating the process of conversion of MUFAP into SRO
- Reviewing of Sahulat Sarmaykari account requirement in light of industry's feedback
- Reviewing of restrictions on exposure in derivatives in mutual funds
- Finalizing separate primary law for NBFCs
- Finalizing draft guidelines on grievance resolution mechanism for NBMFCs
- Nurturing lending NBF sector entities with special reference to create an enabling regulatory framework to support smaller companies
- Amending regulatory framework for REITs
- Finalization and issuance of notifications for the amendments proposed in the existing Modaraba Rules and Prudential Regulations
- To carry out all requisite steps for the promulgation of new modaraba law
- Completion of subordinate legislations under the new modaraba law (subject to promulgation of new modaraba law)
- Conversion of all physical processes into online processes (subject to promulgation of new modaraba law)

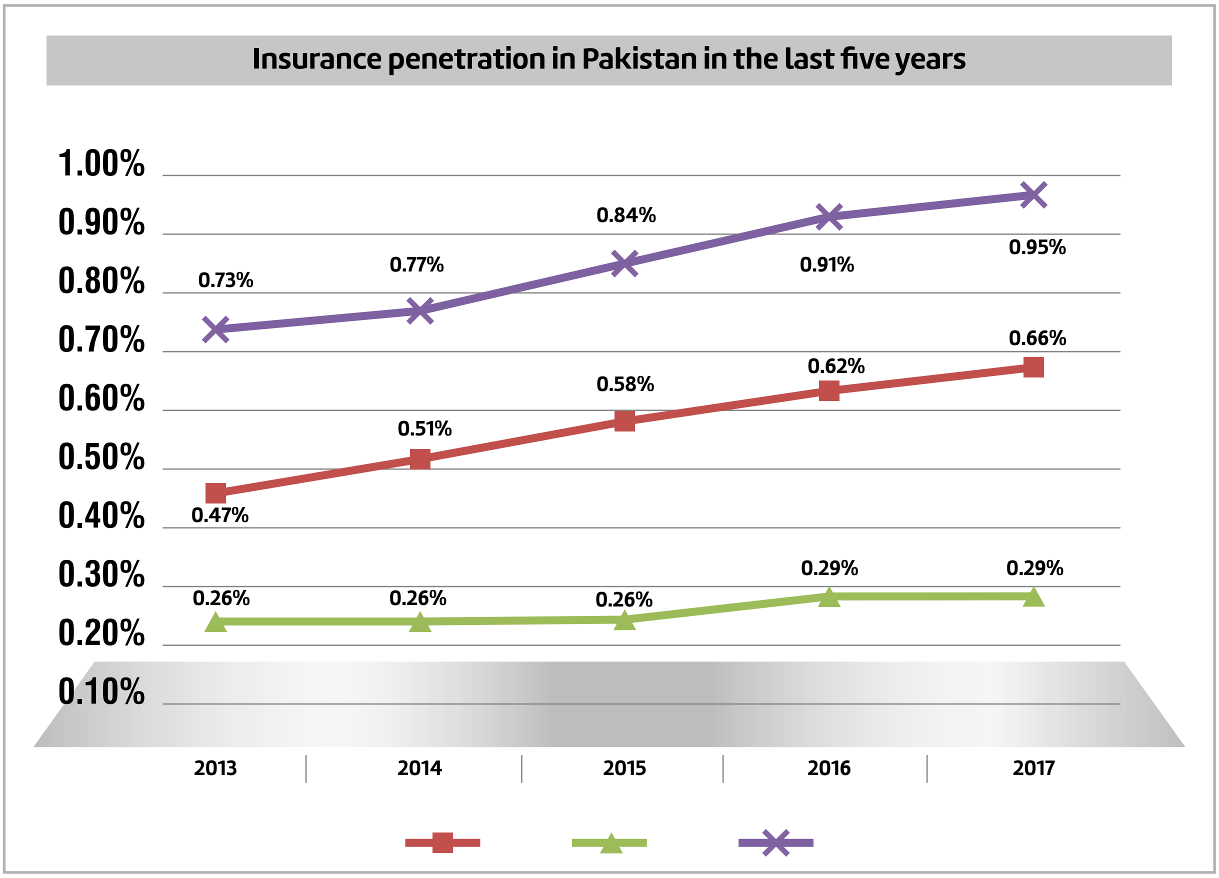
Insurance

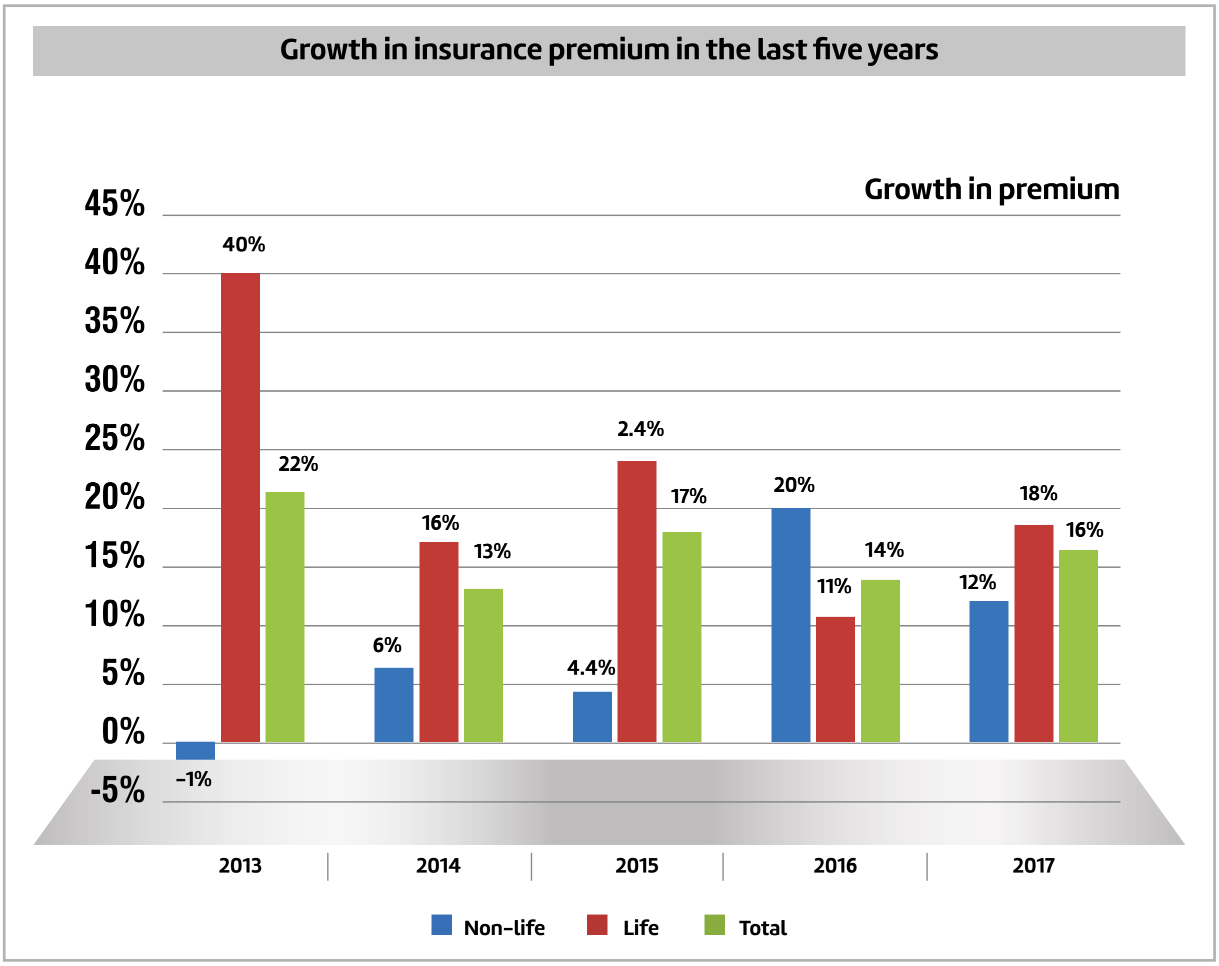
Sector Overview

Insurance policies offer indemnity to individuals as well as companies through the mechanism of transfer and pooling of risks. Thus, insurance sector provides financial stability to the economy as public companies and households can insure themselves against financial risks, enhancing the degree of certainty in their planning and lessening uncertainty in their investment behavior. A dynamic and well-regulated insurance sector is not only capable of ensuring that the specific risks are adequately allocated, but it also contributes to economic growth of the country. Being the insurance supervisor, the SECP is fully committed to pursuing its fundamental objectives of sound and organized development of the insurance sector, effective regulation of insurance business and protection of interests of the policyholders.

Sector level information

In December 2017, the industry's total premium revenue stood at Rs308.46 billion ($2.789 billion), excluding reinsurance, whereas, the industry's total assets stood at Rs1,298 billion ($11.74 billion). In 2017, premium revenue of life insurers and non-life insurers grew by 18% and 12% respectively, while the overall growth rate during this period remained 16%. The life insurance sector underwrote premium of Rs213.6 billion, and non-life insurance sector recorded premium of Rs94.8 billion.





At present, there are 41 non-life insurers operating in the market, including three general takaful operators and two state-owned insurers. There are nine life insurers, including two family takaful operators, and one state-owned insurer in the life insurance sector.

The minimum paid-up capital requirements for life insurers and non-life insurers are Rs700 million and Rs500 million, respectively. The insurance market is fairly liberalized as hundred percent foreign ownership and control of insurance companies is permitted.

Licensing and approvals

The SECP granted various regulatory approvals, extensions and NOCs on the applications received from the insurers, surveyors and brokers etc., under the provisions of the relevant laws. The following approvals were processed during the year.

Approvals of appointment of directors and CEOs

Approvals of appointment of 241 directors and chief executives of insurance companies were issued after scrutinizing their applications in light of the provisions of the Insurance Companies (Sound and Prudent Management) Regulations, 2012, and other applicable regulatory provisions. Furthermore, approvals of 25 directors and chief executives of insurance brokers were also accorded in terms of rule 38 of the Insurance Rules, 2017.

Licenses to insurance brokers

The SECP granted a license to one insurance broker and renewed licenses of 14 insurance brokers upon fulfilling the requirements contained in Section 102 of the Insurance Ordinance, 2000, read with rules 37, 38, 39 and 50 of the Insurance Rules, 2017.

Licensing of insurance surveying companies and ASOs

The SECP issued 513 licenses to insurance surveying companies and authorized surveying officers, of which, 188 licenses were issued to the surveying companies and 325 licenses were issued to authorized surveying officers (ASOs).

Facultative reinsurance approvals

The insurers prudently manage their high exposure individual risks through facultative placements with foreign reinsurers after complying with the applicable provisions of the law and with the SECP's approval. The SECP accorded 1,355 approvals for placement of risks abroad with foreign reinsurers in facultative manner.

Authorization as window takaful operators

During the year, authorization to conduct window takaful operations was granted to four non-life conventional insurers, after which, the number of window takaful operators reached 25. Five life insurers and 20 non-life insurers are authorized to conduct window takaful operations.

Life insurance products approvals

During the year, 100 new life insurance products and supplementary riders were approved by the SECP. Necessary guidance was provided to the life insurers and takaful operators on various aspects of life insurance products amidst the expansion of business through technology based distribution channels.

Major initiatives

Notification of the Credit and Suretyship (Conduct of Business) Rules, 2018

In order to further strengthen the regulatory framework with respect to insurance guarantees, the SECP notified the Credit and Suretyship (Conduct of Business) Rules, 2018, vide SRO 696(I)/2018 dated June 1, 2018, under Section 83 of the Insurance Ordinance, 2000. As per these rules, exposure of the insurer on any type of guarantee to a party or group has been capped at 2.5% of the insurer's shareholders' equity.

The insurer shall, at all times, ensure that the aggregate net retained exposure on all guarantees shall not exceed the greater of 100% or such other percentage of the insurer's shareholders' equity as the SECP may notify from time to time through notification. It has been made mandatory for the insurers to collect collateral equivalent to at least 80% of the sum insured less reinsurance support for all types of guarantees, which means that the insurer shall only be exposed to 20% of the net exposure. The insurers engaged in underwriting guarantee business shall have to file a return on an annual basis, on the prescribed format in respect of such business for better monitoring by the SECP.

Amendments to the Insurance Rules, 2017

The SECP notified the Insurance Rules, 2017, through S.R.O. 89(I)/2017 dated February 9, 2017. The rules, *inter alia*, brought about significant changes to the regulatory framework for insurance surveyors and authorized surveying officers by introducing enhanced paid-up capital requirement, professional indemnity, continuous professional development requirements and licensing fee. In order to make the newly introduced regulatory requirements more conducive and favorable to the regulated persons, certain amendments were made to the Insurance Rules, 2017, through S.R.O. 658(I)/2018 dated May 28, 2018, through which, requirements as to the paid-up capital, professional indemnity, licensing fee, among others, were streamlined in line with stakeholders' comments.

Directive for Corporate Insurance Agents (excluding banks) and Technology-based Distribution Channels, 2018

The regulatory directive was issued for corporate insurance agents (excluding banks) and technology-based distribution channels, whereby regulatory requirements regarding conduct of business through these channels were prescribed. The directive set out guidance in respect of maintaining minimum consumer protection standards while distributing insurance through technology-based channels such as storage and safety of policyholder data, communication of all terms and conditions through mobile/internet, manner of exiting the agency agreement and code of conduct, etc.

Permission for dollar-denominated insurance policies

The SECP issued a circular, stipulating the documentary requirements for insurers for issuance of dollar-denominated insurance policies. It has been made mandatory for the insurers to obtain recommendation letter from the SECP before submitting an application for issuance of dollar-denominated insurance policy through the authorized dealer.

The circular requires submission of copy of bilateral agreement or any other document as evidence of bilateral agreement, in case of such policies required to be issued for projects undertaken in Pakistan, as part of bilateral agreement between the government of Pakistan and a foreign country/multilateral agency. In case issuance of dollar-denominated policy is required to meet the condition of foreign currency (FCY) loan, documentary evidence establishing permission given by the SBP in this regard is required. Other requirements include minimum insurer financial strength rating of insurer and coinsurer, proposed reinsurance solution and other details regarding the risk(s) to be insured.

Initiatives taken under the National Financial Inclusion Strategy (NFIS)

In order to implement the National Financial Inclusion Strategy (NFIS) adopted by the government of Pakistan, the Technical Committee on Insurance (TCI) took a number of initiatives to achieve the objective of financial inclusion. One of the key initiatives was to initiate negotiation with the National Database Registration Authority (NADRA) for a reduction in NADRA's verification cost for microinsurance policies.

After thorough deliberations, NADRA agreed to provide the verification services at Rs10 per verification for the microinsurance policies. This is a landmark achievement and is expected to significantly reduce the cost of microinsurance policies. The other initiatives include consultation with provincial education bodies for incorporation of insurance related content in academic curriculum, and a follow-up with the relevant ministries for legislative improvements in laws governing the compulsory group life insurance and motor third party liability insurance. An English-Urdu glossary of insurance terms was also developed by the NFIS Technical Committee on Insurance for use in insurance policy documents and promotional activities.

Proposed amendments to Motor Vehicles Act, 1939

Motor third party liability insurance offers insurance protection against death and bodily injury to the victims of the road traffic accidents or their legal heirs. The law provides compensatory remedy for all such accident victims as provisions contained in the saved Chapter VIII of the Motor Vehicles Act, 1939, make it compulsory for all the motor vehicles owners to have the motor third party liability insurance cover. The compensation limit of Rs20,000 prescribed for death or bodily injury under the Motor Vehicles Act, 1939, is a meagre sum of money. It needs to be increased. (It may be noted that this law has been repealed except its chaperts 7 and 8).

Moreover, the existing procedure for determination of the liability through courts is so lengthy, costly and cumbersome, which claimants cannot afford. Therefore, the SECP prepared a proposal to amend the Motor Vehicles Act, 1939, for smooth implementation of the motor third party liability insurance scheme to compensate the road accident victims and forwarded it to all the four provincial governments. These are major proposed amendments to the said law:

- To introduce "No fault option" whereby the claim for death or bodily injury shall be payable to the victims of the road accidents or their legal heirs without obtaining any court order and irrespective of the fact as to whether or not the insured person was at fault
- To increase compensation limit in case of death from Rs20,000 to Rs500,000
- To introduce compensation limits separately for bodily injuries

After receiving feedback from Ministry of Law and Justice, IAP was requested to redraft the proposed amendments in light of the observations of Ministry of Law and Justice. IAP submitted a fresh draft of the proposed amendments on November 13, 2017. The proposed amendments to the law were disseminated for public consultations through posting on the SECP's website and circulation among stakeholders.

Resolution of policyholders' complaints

The Insurance Division disposed of 674 policyholders' complaints against insurers whereby they paid Rs85.303 million on account of settlement of policyholders' grievances. The remaining complaints were either forwarded to the Federal Insurance Ombudsman or Small Disputes Resolution Committee keeping in view the jurisdiction of the relevant forum.

Future outlook

- Introduction of accounting regulations and formats for general takaful operators
- Introduction of regulatory requirements for reporting of family window takaful operations by life insurers
- Notification of formations for audit reports required under various laws
- Expansion of Centralized Information Sharing Solution for Insurance Industry to non-life sector
- Formulation of guidelines on alternative distribution channels
- Issuance of circular/guidelines for establishment/strengthening of the grievance function of insurers for expeditious resolution of policyholders' complaints

Islamic finance

Islamic finance assumes a center stage in the SECP's policies. The SECP has taken a number of measures on the regulatory front for effective regulation of Islamic financial services. The SECP's Islamic Finance Department (IFD) is mandated to embed Islamic finance in the corporate sector and capital markets for the development of vibrant primary and secondary markets for Islamic financial products and services. It facilitates the development of Islamic finance through an enabling legal, regulatory and compliance framework.

The IFD is striving to inculcate highest standards of quality services and Shariah compliance and build a resilient and sustainable Islamic financial system in Pakistan. It has taken a number of measures to strengthen governance of Islamic finance companies and ensure that their business activities are in accordance with Shariah principles.

Shariah-compliant companies

Landmark provisions have been added to the newly promulgated Companies Act, 2017, for Shariah-compliant companies and Shariah-compliant securities. The concept of Shariah-compliant companies and securities is the first of its kind in the corporate history of Pakistan. This concept extends from the previous paradigm where Islamic finance was largely confined to Islamic financial institutions, sukuk and Shariah screening of listed companies. The new concept provides an opportunity to companies or securities, irrespective of their size or line of business, to become Shariah compliant.

Draft Shariah Governance Regulations, 2018

The SECP, under the enabling provisions of the Companies Act, issued Draft Shariah Governance Regulations, 2018 (Shariah governance framework) for the governance of Shariah-compliant companies, Shariah-compliant securities and Islamic financial institutions. The proposed regulations encompass various elements of Shariah governance such as Shariah compliance, internal and external Shariah audit, Shariah screening, Shariah-related disclosures and explicate the responsibilities of Shariah advisors. They also provide a certification mechanism for Shariah-compliant companies and securities.

The Shariah governance framework of the SECP was appreciated locally as well as internationally.

- In its April 2018 report, Moody's Investors' Service termed the introduction of Shariah governance regulations and Shariah standards as credit positive for Pakistan and stated that it will promote standardization across Islamic financial institutions.
- In its issue of April 2018, Islamic Finance News (IFN) termed the issuance of the said regulations by the IFD as an excellent effort and a "major breakthrough for the further development of the Islamic finance sector on a long-term and sustainable basis and will also facilitate the growth of Shariah-compliant entities in line with best market practices the world over."
- Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) in its Islamic Fund Management Report (June 2018) described Pakistan as a developing (advanced) economy in Islamic fund management and placed it at second only to Malaysia, while the introduction of the Shariah Governance Regulations, 2018, was appreciated for strengthening Shariah screening methodology. The report stated:

  > Comparable to Malaysia, Pakistan has a robust Shariah framework that governs the governance and compliance of Islamic capital market activities, particularly Islamic funds-related business. In fact, Pakistan is more advanced in ensuring compliance with standards issued by international standard-setting bodies such as AAOIFI and Islamic Financial Services Board (IFSB).

Shariah Advisors Regulations, 2017

Realizing the need for a robust Shariah advisory function and to improve the quality of Shariah advisors, and to professionalize the Shariah advisory businesses, the SECP notified the Shariah Advisors Regulations, 2017, whereby individuals, firms, LLPs, and companies meeting the fit and proper criteria and registered with the SECP were allowed to provide Shariah advisory services.

Sukuk (Privately Placed) Regulations, 2017

To develop a vibrant sukuk market and to encourage sukuk issuances, Sukuk (Privately Placed) Regulations, 2017, and Public Offering Regulations, 2017, were notified after extensive consultations with stakeholders. Sukuk issuers have been exempted from the underwriting and rating requirements for privately placed sukuk, minimizing the cost of issue. Tax neutrality has been provided to sukuk vis-a-vis conventional securities through an amendment to the Income Tax Ordinance, 2001.

Moreover, fiscal incentives to entice investors for investment in sukuk were offered. Retail investors' participation in the sukuk has been encouraged by approval of a tax credit for investment in sukuk.

Shariah-compliant assets of the NBFI industry

The share of Shariah-compliant assets of the NBFI industry is steadily rising. On June 30, 2018, the Shariah-compliant assets accounted for 31.8% of the total assets of the NBFI industry. The Shariah-compliant mutual funds registered a phenomenal growth, the share of Shariah-compliant funds reached 40% of the assets under management (AUM) of the mutual fund industry as of June 30, 2018.

AAOIFI's accounting and Shariah standards

In order to achieve a high degree of standardization in the operational and business practices of Islamic financial institutions, the SECP is gradually adopting accounting and Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In February 2018, the SECP adopted three AAOIFI Shariah standards while in April 2018, the SECP issued draft notification for adoption of seven additional AAOIFI Shariah standards.

In addition, the SECP has also implemented standards of Islamic Financial Services Board (IFSB) Malaysia through its Shariah Governance Regulations. The SECP plans to adopt more Shariah and accounting standards of AAOIFI for its stakeholders to benefit from improved Shariah and corporate governance in Pakistan.

Promotion of Islamic finance education

The SECP and the three Centers for Excellence in Islamic Finance (LUMS, IBA & IM Sciences) have, in principle, agreed to join hands for the noble cause of promoting Islamic finance education, training, research and development. The initiative, the first of its kind, will go a long way in creating awareness among the academia, the public, training for stakeholders and capacity building of Islamic financial institutions through joint and collaborative efforts.

Pilot project of commodity murabaha transactions

The SECP approved the Pakistan Mercantile Exchange (PMEX) Shariah-compliant Commodity Murabaha Regulations. The SECP and SBP granted approval for a three-month pilot phase for execution of commodity murabaha transactions. The Shariah compliance status of the transactions executed on the exchange was monitored during the pilot phase and final approval of the product is under consideration.

Shariah-compliant trading counter at PSX

A proposal for establishment of a Shariah-compliant trading counter at PSX has been presented by IFD to the SECP's Shariah Advisory Board. The Shariah Advisory Board granted, in principle, approval for the introduction of the counter and asked that relevant regulatory changes to the regulations of PSX, NCCPL and CDC may be made and presented to the board for its review.

Murabaha share financing product at PSX

The SECP's Shariah Advisory Board granted, in principle, approval for murabaha share financing product at PSX and decided that NCCPL team will coordinate with the Shariah advisors to bring about necessary improvements to the process flow and agreements. The revised agreements and process flow will be presented to the Shariah Advisory Board for its review and approval.

An obstacle-free regulatory regime that provides level playing field is a prerequisite for sustainable development and penetration of the Islamic corporate sector and capital markets. The SECP is providing its regulatory support to spur growth of the Islamic finance industry and is focused on scaling up Islamic finance regulations to provide an enabling regulatory environment to stakeholders in the sectors within the SECP's regulatory ambit.

Risk management

The reduction of systemic risk is one of the three objectives of securities regulation, as set by the IOSCO, along with the protection of investors, and ensuring that markets are fair, efficient and transparent. The IOSCO requires the regulator to contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate. In line with the IOSCO's guidance, established international practices, and local needs, the SECP has taken a range of measures to reduce systemic risk.

Amendment to the SECP Act regarding systemic risk

The SECP Act, 1997, was amended in 2016. Consequently, the SECP was given the specific responsibility of identifying and addressing factors that may result in systemic risk in the market. A definition of systemic risk was also added to the Act. The amendment increased the SECP's focus on systemic risk.

Systemic risk organizational arrangement at SECP

Because of increased focus on systemic risk, the Systemic Risk Department (SRD) is supported by a cross-functional team of executive directors. Headed by an executive director, the SRD has four risk officers who possess advanced academic and internationally recognized professional qualifications such as FCA, ACA, MPhil and master's in economics. The SRD is responsible for vigilant monitoring and analysis of factors that contribute to systemic risk. During the year, the focus of the SRD was on capital market.

Established and functional Council of Regulators

In order to create a forum to deliberate on issues related to systemic risk, particularly those having cross market and stability implications, and suggest possible arrangements for crisis preparedness and issuing a coordinated response, the SECP and SBP have signed a letter of understanding to establish the Council of Regulators. Its establishment is aligned with the best international practices and marks a significant step to enhance collaboration between the SECP and the SBP to promote financial stability. The first meeting of the Council to discuss the issues and to define the way forward was held in October 2017.

Risk profiling and stress testing implemented

In collaboration with the NCCPL, the SECP has led the development of a detailed investor level risk profiling and stress-testing model for clearing and settlement. This model assigns probability of default to each investor based on criteria that includes settlement track record, availability of information, degree of regulation of the investor, experience of the investor in stock market trading, whether or not trading and investments is the core line of business of the investor. During the year, this model was implemented at the clearing house that has equipped it with the ability to monitor settlement risk efficiently.

Risk monitoring and reporting

A comprehensive risk monitoring and reporting mechanism has been introduced at NCCPL. As a consequence, the clearing house generates daily risk report that is a single most comprehensive document, for analysis of risk of the capital market. The risk report focuses on major factors such as leverage, settlement levels, exposures, concentration and portfolio investments.

Risk governance framework

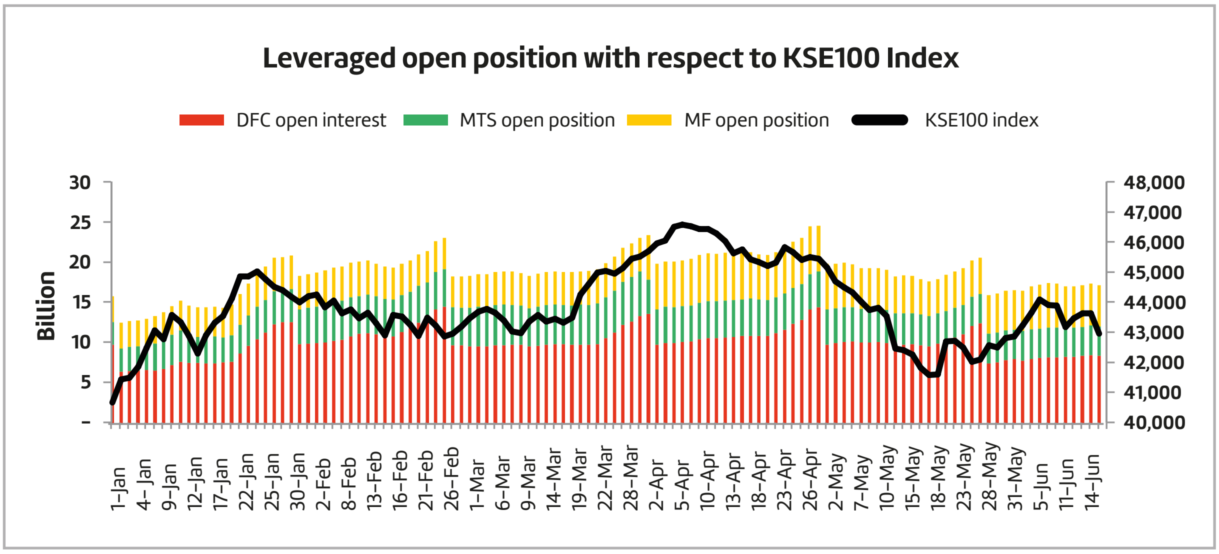
Risk governance framework for AMCs was developed in line with the international practices and the proposal was shared with the relevant department. The framework covers minimum policy elements including risk identification, risk priority, risk appetite and risk limit etc. Furthermore, recommendations pertaining to board risk committee and chief risk officer were prepared in order to strengthen the risk management function of AMCs.

Review of default regulation and simulation exercise

Pursuant to decision of the Commission taken in its 19th meeting, held on May 16, 2018, the SRD is analyzing the existing default waterfall of the clearing house and conducting simulation exercise to identify the weaknesses in the waterfall, regulatory framework and operational issues that the clearing house might face during period of stress and broker defaults. Recommendations will be made to remove lacuna of relevant regulations.

Ongoing monitoring of leveraged open positions

The key factor contributing to systemic risk in the secondary market is leveraged speculation. The three key modes of leveraged trading in PSX are deliverable futures contract, margin trading system and margin financing. In addition, off system badla financing is an undocumented illegal mode of financing, which is vigilantly analyzed by the relevant department. Leveraged open position is closely monitored by the SRD, and any unexpected hike in the position is promptly analyzed.



Legislative and legal reforms

During fiscal year 2018, the SECP continued to upgrade its existing primary as well as secondary legislation to strengthen its overall regulatry framework and remove bottlenecks for providing ease of doing business. It vigilantly examined laws, rules and regulations, which are being administered by the SECP. The department drafted and reviewed the following:

Primary legislation

Corporate Rehabilitation Act, 2018

Promulgated on May 16, 2018, the Corporate Rehabilitation Act, 2018, provides a mechanism for rehabilitation of the distressed companies and sustainable growth of corporate sector. The consultation on a proposed Bill started in 2004, but due to differing views of stakeholders, further progress was stalled. After extensive consultations carried out in the last few years, a consensus was developed and the Act was passed by the Parliament.

The CRA, 2018, also meets the international standards with respect to issue of corporate insolvency. The World Bank has accepted it as one of the major reforms in Ease of Doing Business Reform Survey for 2018. The salient features of CRA, 2018, are as under:

- It introduced the option of reorganization for corporate entities as an alternative to previously available liquidation procedure and allow the debtor to commence the reorganization procedure
- High Court appoints an insolvency expert to undertake mediation with creditors and shareholders file its report with the court for necessary orders
- Established provisions facilitating the continuation of the debtor's business during insolvency, giving the administrator the power to continue contracts of the debtor
- Established the possibility for the administrator to request arrangement of new financing after commencement of insolvency proceedings and granted creditors who provide post-commencement financing with priority over all other expenses and claims
- Stipulated specific rules on how creditors vote the rehabilitation plan, indicating that all creditors vote on the plan, regardless of its impact on their interests.

Some other primary legislation that the SECP has reviewed and proposed amendments therein are following:

- Insurance Bill, 2018
- Motor Vehicle Third party (Amendment) Bill, 2018
- Compulsory Group Life Insurance (Amendment) Bill, 2018
- Modaraba Bill, 2018

Secondary legislation

New rules (ongoing)

- Draft Search and Seizure Rules, 2017
- Draft Corporate Restructuring Companies Rules, 2017
- Draft Investor Education and Awareness Fund Rules, 2018
- Draft Appellant Bench Rules, 2018
- Draft Securities Leverage Market Rules, 2018
- Draft amendments to the Public Sector Companies (Corporate Governance) Rules, 2013

New regulations

- Audit Report Regulations, 2017
- Collateral Management Regulations, 2017

- Companies Compliance and Reporting Regulations, 2017
- Related Parties Transaction Regulations, 2018
- Companies Incorporation Regulations, 2018
- CRO Regulations, 2018
- Employees Contributory Funds Regulations, 2017
- Foreign Companies Regulations, 2017
- Independent Directors Regulations, 2017
- Intermediary Regulations, 2017
- Investment in Associated Companies and Undertaking Regulations, 2017
- Companies (Mediation and Conciliation) Regulations, 2018
- Postal Ballot Regulations, 2018
- Powers of Director Regulations, 2017
- Related Parties Transaction Regulations, 2017
- Associations with Charitable and Not for Profit Objects (Licensing & Corporate Governance) Regulations, 2017
- Shariah Advisory Regulations, 2017
- Shariah Governance Regulations, 2018
- Unclaimed Dividend Regulations, 2017
- Futures Broker Regulations, 2018
- Futures Advisors Regulations, 2018
- PMEX Morahaba Regulations, 2017
- PMEX Regulations, 2017
- Limited Liability Partnership Registration Regulations, 2018
- Securities Manager Regulations, 2017
- Draft Companies (General Provisions and Forms) Regulations, 2018

Prosecution and civil litigation

The Litigation Department has the primary responsibility to represent and defend the SECP before the courts of law. It manages cases pending before the courts in their respective jurisdictions, including preparation and finalization of pleadings. It also initiates civil and criminal proceedings on the recommendations of the SECP. It strives to protect the SECP's interests and assists courts of law in dispensing justice.

Court-wise number of cases

Total cases	1417
Supreme Court of Pakistan	17
High Courts	1270
District courts/tribunals	140
Stay orders	85

Department-wise number of cases

Corporate Compliance Department (CCD)	858
Securities Market Division (SMD)	218
Corporate Supervision Department (CSD)	157
Specialized Companies Division (SCD)	88
Human Resource (HR)	22
Insurance Division	71
Finance Department	3

- During the year, the department's own law officers successfully defended 80% of cases. Last year law officers represented the SECP in 65% of cases.
- Thirty-eight percent of the budget allocated for payment of professional fees was saved.
- Fifteen winding up petition were drafted and filed by law officers.
- Eighteen criminal complaints were drafted and filed by law officers.
- After persistent follow-up with the Ministry of Law and relevant registrars of the High Court, special courts for banking offences have been created for the purpose of Section 38 of the SECP Act in Karachi, Lahore, Islamabad, Peshawar and Quetta. Consequently, cases earlier filed and pending before different courts have been transferred to special court in Karachi.
- For effective coordination the nomination of focal persons from operational departments were identified.
- Comprehensive litigation data was compiled and is being shared and discussed with focal persons of each department for up-to-date status of cases pending in the Supreme Court and High Courts.
- Fiscal impact/saving by strengthening the internal litigation team:

In million rupees

Financial year	Allocated budget	Actual utilization	Saving
2016-17	28.00	22.70	5.2 (19%)
2017-18	28.00	17.40	10.60 (38%)

Enforcement

During the year, the SECP continued to consolidate and augment its efforts to ensure compliance with the regulatory framework by the corporates, NBPCs, insurance sector and capital market participants. The extended efforts covered a range of activities such as onsite inspections, offsite review, enquiries, investigations and specialized inspections, the ultimate objective being that all regulated entities comply with and implement the SECP's regulatory framework in its true spirit.

Capital markets

In order to ensure the orderly execution of the market operations, significant measures have been taken by the SECP. In various instances of noncompliance with the regulatory provisions, the Securities Market Division of the SECP initiated six enquiries and investigations, conducted five inspections/specific purpose reviews and initiated and completed 30 thematic reviews with regard to customer due diligence and AML. The department also referred six cases for criminal prosecution i.e., one for Insider trading, one for market manipulation and four others market abuses.

During FY18, 240 cases of non-compliance with regulatory framework, identified as a result of investigation/ inspection of brokerage houses and non-compliance with PSX rulebook and CDC regulatory framework were referred for adjudication.

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

Enquiries conducted/initiated against market participants				
	2015	**2016**	**2017**	**2018**
Market manipulation	2	6	9	4
IPO/book building	0	1	2	0
Insider trading	3	10	9	2
Total	**5**	**17**	**20**	**6**

Cases referred for criminal prosecution	
Violations	**Number of cases**
Insider trading	1
Market manipulation	1
Other market abuses	4
Total	**6**

Cases referred for adjudication	
Violations	**Number of cases**
Non-compliance with PSX rulebook and CDC regulatory framework	178
Non-compliance with regulatory framework identified as a result of investigation/inspection of brokerage houses, share registrar and SROs	62
Total	**240**

Details of actions against brokers				
S. No	**Task**	**2015-16**	**2016-17**	**2017-18**
1	**Number of inspections/specific purpose reviews**			
1.1	Initiated thematic review/inspection of self-regulatory organizations	3	2	1
1.2	Initiated inspections of credit rating agencies	2	2	2
1.3	Initiated inspections of brokers	23	17	2
2	**Enquiries and investigations**			
2.1	Enquiries/investigations initiated	8	17	5
3	**Follow-up inspections**			
3.1	Follow-up inspections	4	4	0
4	**Thematic reviews ***	0	172	30
5	**Training initiatives****	3	2	1

** Thematic review with regard to customer due diligence and AML was initiated and completed. Two follow-up thematic reviews w.r.t illegal financing were completed during the year.*

*** A training session for NAB officials was conducted with reference to market manipulation*

Adjudication

The SECP's Adjudication Department was formed in December 2017, its exclusive mandate was to oversee the adjudication of capital market participants, handle investor claims against defaulted brokers and investor complaints related to capital market.

In pursuance of its mandate to settle investor claims against defaulted brokers, the department held several meetings with the Fund Committees of the LSE and ISE that resulted in expeditious settlement of claims against four defaulted brokers. The breakdown of enforcement actions initiated by the Adjudication Department is as follows:

ARNs received	Show cause notices issued	Referred to PSX/CDC for further necessary action	Orders issued	Penalties imposed
240	29	178	46	Rs34.25 million

Offsite monitoring and surveillance of capital market participants

During the year, 136 letters were issued to the securities brokers who had failed to submit their financial returns for various quarters or were irregular filers requiring them to ensure submission of pending quarterly financial returns of various quarters while ensuring full compliance in the future.

Review of information

Information as tabulate below, received from the exchanges, CDC and NCCPL was reviewed.

Offsite forms	2016	2017	2018
Stock exchanges	289	160	160
CDC	36	36	36
NCCPL	49	153	153
PMEX	122	121	121
Review of system audit reports of stock exchange brokers	141	35	31

Review of system audit reports of brokers of PMEX brokers	48	31	33
Review of CDC inspection reports of participants	11	0	0
Review of joint inspection reports	24	42	43
Financial statements review	0	0	35

Compliance reviews

During the year, a comprehensive compliance assessment of PSX, NCCPL and CDC was conducted. The assessment process was aimed at evaluating and enhancing the overall functioning of SROs. Furthermore, a number of theme-based reviews were conducted aiming to identify areas of non-compliance by the market participants and assess the robustness of monitoring mechanism/controls of SROs. Such reviews included the following areas:

- Internet audit function
- Review of NCB
- Securities brokers functional website
- Common mobile number against multiple sub-accounts
- Illegal deposit taking/ in house financing
- Disaster recovery site terminal

The findings of the compliance reviews were shared with the respective self-regulatory organizations (SROs) in order to assist them in strengthening their controls.

Revamp of reporting by SROs

Considering rising complexities into compliance risk, the Market Supervision and Compliance Department (MSCD) of the SECP continued to expand its scope of activities to new avenues such as theme-based investigation, inspections of self-regulatory organizations (SRO), investigation on leakage of sensitive trading information etc.

During FY-2018, the department conducted thematic investigation over identification of original beneficial investors, which successfully resulted identification of cases, wherein, third persons were identified to have been conducting the trading. It has also conducted thematic reviews over very important area, i.e. anti-money laundering (AML)/counter financing terrorism (CFT) of large number of brokerage houses, such exercise brought number of risky areas, which needed improvement, thereby leading to full compliance. The MSCD also conducted and concluded over leakage of sensitive trading information, which managed to identify the sensitive avenues that could become source of leakage. The identified areas, were forthwith rectified under the supervision of an SECP appointed team. As a matter of routine, the MSCD conducted inspection of various brokerage houses, a credit rating company and of SROs.

Joint inspection regime

In order to have deterrence on the regulated persons, follow-up inspections were introduced to ensure that brokers, once inspected either by the SECP or under joint inspection regime, ensure compliance with applicable regulatory framework.

Future outlook

- Strengthening of surveillance function at SROs
- Onsite inspection of other licensed activities such as RTA/TA, credit rating companies is planned
- Compliance review of Pakistan Stock Exchange Limited
- Compliance review of National Clearing Company of Pakistan Limited
- Compliance review of other SROs
- Thematic reviews of TREC holders
- Follow-up inspections of TREC holders on a regular basis
- Standardization of back office records of securities brokers

Non-banking financial companies (NBFCs)

Offsite examination and enforcement

The SECP examines financial health and assesses regulatory compliance level of non-bank financial companies (NBFCs), notified entities (NEs) and modarabas on the basis of published information and data received electronically through Specialized Companies Returns System (SCRS) on a monthly basis.

Offsite examination of all asset management companies, mutual funds, pension funds, investment advisory portfolios, and deposit/non-deposit taking lending institutions (i.e leasing companies, investment banks, non-bank microfinance companies, and modaraba) is conducted on a semi-annual basis. The findings are taken up with respective entities primarily through compliance and warnings letters. Statistics of offsite examinations conducted during the last two years are as follows:

Category of entity	Total number of offsite reviews	
	2016-17	**2017-18**
Asset management companies	40	38
Investment advisors	4	4
REIT management companies	3	4
Private equity	-	1
Investment banks	16	16
Non-bank microfinance companies	-	40
Leasing companies	16	14
Modarabas	50	54
Total	**129**	**171**

During the period, independent reviews and analysis on the offsite reports and onsite inspection reports were carried out and actions were taken against non-compliant NBFCs and modarabas as per the following details:

- An order was issued under Section 282J(1) read with Section 282M(1) and Section 282D of the Companies Ordinance, 1984, against an AMC and its CEO for not complying in a timely manner with one of the conditions laid down in the merger order issued by the SECP. Through the said order, the AMC and its CEO was advised strictly to ensure compliance with regulatory framework in the future.
- One direction and 12 warning letters were issued to different NBFCs and modarabas on various violations of regulatory framework.
- A show cause notice of winding up was issued to a modaraba as its accumulated losses had exceeded 50% of its certificate capital. A hearing was conducted, but as of June 30, 2018, no order had been issued.
- A show cause notice was issued to an investment bank due to its failure to meet the minimum equity requirement. Hearing was conducted. As per the order issued, the bank was allowed time up to July 31, 2018, to comply with the equity requirement, otherwise necessary action will be initiated against it.
- A leasing company was issued a show cause due to its failure to meet the minimum equity requirement. Hearing was conducted. As per the order issued, the company was told to comply with the equity requirement by July 31, 2018, otherwise necessary action would be initiated against it.
- A show cause notice was issued to another investment bank due to its failure to meet the minimum equity requirement. A hearing was conducted, but as of June 30, 2018, no order had been issued.
- Another modaraba was issused a show cause notice for its failure to submit periodic financial statements to registrar modaraba, circulate the financial statements to its certificate holders and submit monthly online returns. Order in the matter was issued and a penalty of Rs100,000 was imposed on the modaraba management company and each of the three directors.

- Review of investment decision making processes implemented at AMCs in relation to Regulation 37 (3) (b), (d), (j) & (k) of NBFC and NE Regulations, 2008, was carried out. In case, where deficiencies were observed, respective companies were advised to improve their investment decision making processes in line with the provisions of regulations.
- The performance of pension funds was assessed in light of Rule No 40 of VPS Rules, 2005, and the matter of underperformances was taken up with the respective AMCs through compliance letters in which certain companies were advised to improve performance of their pension schemes.
- Matters highlighted by trustees of mutual funds were also taken up with the respective AMCs for necessary compliance.
- Data reported by NBFCs in compliance with the SECP Circular 9 of 2017, was reviewed and documentation pertaining to KYC/CDD was checked by the AML Wing of Supervision and Enforcement Department of SECP's Specialised Companies Division, to ascertain compliance with Circular No 12 of 2009 concerning AML/CFT.

Statistics pertaining to various types of enforcement actions taken during the last two years are given below:

Enforcement actions	2016-17	2017-18
Compliance letters	299	377
Warnings/directions	37	13
Show cause notices	12	5
Orders	12	4
Total	**360**	**399**

Onsite inspection

Onsite inspection of NBFCs, notified entities and modarabas is an essential component for the efficient and effective supervision of the NBFC and modaraba sector. The selection of entities is based on the risk assessment criteria of the onsite inspection wing and recommendations made by other wings/departments.

During FY-18, inspection of 13 entities was carried out as compared to inspection of eight entities conducted in FY-17. Inspection of five AMCs (which include 40 mutual funds/plans and six pension funds), five modarabas, two leasing companies and one investment bank were carried out. Additionally, two separate specific-scope enquiries pertaining to certain modarabas and AMCs were also carried out. While during FY-17, one thematic exercise was conducted in order to assess compliance with the SECP's Circular No 23 of 2013 and Circular No 26 of 2015.

Future plan

- Hundred percent offsite review of NBFCs, modarabas and non-bank microfinance companies on a semi-annual basis
- Inspections of eight AMCs have been planned for 2018-19 having 113 mutual funds and 10 pension funds covering almost 47% of the AMC/IA sector and 40% of the NBFC and the modaraba sector
- Holding awareness sessions for NBFCs and modarabas about new AML/CFT regulations in coordination with AML Department
- Thematic inspection of NBFCs based on risk-based approach subsequent to promulgation of new AML/CFT Regulations 2018 promulgated in June 2018
- Offsite surveillance and monitoring with regard to AML/CFT regime based on the data received in compliance with Circular No 9 of 2017
- Assessing the compliance of AMCs with respect to Employee Trading Policy (Regulation 38B)
- Minimizing cash handling in NBMFCs through transition to technology-based modes for disbursement and recovery of microcredit loans
- Holding meeting with the auditors of high-risk entities as per SRO 615/2016.

Corporate sector

Offsite surveillance, inspections/investigations and adjudication

During the year, 79 annual audited financial statements of non-listed and private companies and companies registered under Sections 42 and 43 of the Act were examined. Where required, explanations were sought to check compliance with various provisions of the Act and the administered laws and proceedings were initiated in cases where violations were identified.

A summary of actions taken against the companies and their statutory auditors on account of various defaults:

Particulars	2017-18
Show cause proceedings initiated	79
Cases concluded through orders	12
Warnings issued after account's examinations	23

Dissolution of companies

The SECP disposed of 4,443 cases of dissolution of companies. Of these, 11 companies wound up voluntarily, and 4,432 companies were struck off the register under Section 425 of the Act.

Investigation into affairs of companies

Processed three applications during FY-18 under Section 257 of the Companies Act, 2017, for investigation into the affairs of the companies.

Inspection of books of accounts

During the year, inspections under Section 221 of the Companies Act, 2017, of books of accounts of six companies were completed.

Adjudication of cases under the Act

The registrar of companies and the CROs initiated adjudication proceedings in 5,128 cases, pertaining to violations of various provisions of the Act.

Amalgamation and reconstruction of companies under the Act

During the year, 22 applications for amalgamation and reconstruction were received out of which seven were approved by the courts.

Public Sector Companies (Corporate Governance) Rules, 2013

The enforcement activities undertaken during the year include letters, emails and reminders to all companies to file statement of compliance. Moreover, demand notices were issued to 130 companies. Show cause proceedings were initiated against 78 companies.

Listed companies – other than specialized and insurance companies

Offsite surveillance, inspections/investigations and adjudication

The Corporate Supervision Department (CSD) of the SECP is responsible for active surveillance and monitoring of listed companies and their associated undertakings with respect to their compliance with applicable legal regulatory framework in order to safeguard interest of minority shareholders and other stakeholders.

During the year, 569 annual audited financial statements of listed, non-listed, private companies and companies registered under Section 42 of the Act were examined. Where warranted, explanations were sought to check compliance with various provisions of the Act and administered laws and proceedings were initiated in cases of identified violations. The summary given below reflects the stringent regulatory oversight, actions and expeditious disposal of proceedings by the department:

Regulatory actions taken during the last three years			
Particulars	**2016**	**2017**	**2018****
Examination of accounts	851	986	568
Warnings against examination issued	308	132	78
Show cause proceedings initiated	276	488	161
Cases concluded through orders and warnings	370*	430	182

**Case referral of criminal proceeding being internal referral to PLAD for prosecution and not the final outcome excluded from reporting. Figure for 2016 restated to 370 from 376.*

*** The CSD increased focus on supervision of listed companies and unlisted companies, which are not associated or subsidiaries of listed companies, have been excluded from the focus.*

The breakdown of the regulatory actions taken against the companies, their directors and auditors under various provisions of the Act over the preceding three years is given here:

Break-up of regulatory actions taken during the last three years			
Particulars	**2016**	**2017**	**2018**
Inter-corporate financing	4	5	7
Powers of directors	7	6	4
Making false/incorrect statements	26	17	13
Actions against auditors	34	12	3
Non-preparation and submission of consolidated financial statements	4	2	5
Irregularities in provident fund	16	24	10
Irregularities in utilization of security deposits	3	2	-
Authentication of balance sheet	7	1	-
Non/late holding of annual general meeting	42	37	10
Meetings of board of directors and disclosure of interest	4	2	9
Enforcing compliance with the provisions of the ordinance	35	87	28
Circulation of quarterly accounts	107	93	31
Late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors	3	6	4
Application for revision and review of orders	7	3	8
Securities Act orders	60	-	-
Others (winding up orders, inspection and investigation orders, non-maintenance of website etc.)	11	133	50
Total orders	370	430	182

Inspection/investigations

In order to strengthen surveillance and monitoring of corporate sector, department conducted a number of inspections and investigations of listed companies during the year and identified various instances of non-compliance with applicable laws and regulations. Some grave violations that were identified included syphoning of assets by directors, lease of entire undertaking/factory to private companies of directors without seeking shareholders' approval, depriving shareholders of reasonable return, sale of significant assets without approval from shareholders, misappropriation of assets of company, takeover of listed company without compliance with the provisions of the Securities Act, 2015, misstatement in financial statements, non-maintenance of proper books of accounts and various other grave violations.

Data relating to inspections/investigations conducted during the last three years is given below:

Inspections/investigations conducted during the last three years			
Particulars	**2016**	**2017**	**2018**
Inspections	3	6	9
Investigations	3	5	2

Moreover, in terms of section 41B of the SECP Act, the CSD referred two cases involving alleged syphoning off assets/alleged corrupt practices to the National Accountability Bureau (NAB) for investigation.

Insurance sector

Enforcement actions play an important role of deterrence against violations in achieving the objective that the regulated entities are fully compliant with the applicable provisions of the laws. During the FY-2018, the Insurance Division initiated 93 regulatory proceedings against the insurers, insurance brokers and insurance surveyors in accordance with the due process of the law. Sixty-three proceedings were disposed of in which an aggregate penalty of Rs5.55 million was imposed in cases of established violations of the relevant provisions of the law.

Nature of actions/correspondence	Numbers
Show cause notices	93
Orders	63
Penalties imposed	Rs5.55 million

Offsite surveillance function

The SECP having cognizance of an effective offsite surveillance and monitoring function has a dedicated wing entrusted with task of offsite surveillance and supervision of the insurance sector. The offsite surveillance wing monitors and examines all the returns filed with the SECP under the applicable regulatory framework. Annual accounts and other returns of all the insurance companies and insurance brokers are examined and offsite reports are prepared. Non-compliances wherever observed are transmitted through the adjudication recommendation note (ARN) to the adjudication team for adjudication of offences against the entities found non-compliant with the provisions of law. A summary of activities of offsite wing undertaken during the year is presented below:

Nature of actions/correspondence	Numbers
Offsite reports completed	60
Adjudication recommendation notes (ARNs)	77
Warning/advice letters	45

Onsite inspections

Thematic review of bancassurance business

The SECP had initiated a thematic review of bancassurance business of insurers in order to check compliance of conduct of business with applicable regulatory provisions by the insurers undertaking bancassurance business. Through the review of the information provided by the life insurers and takaful operators, certain instances of non-compliance with the applicable regulatory framework were observed, for which, appropriate regulatory actions were initiated. A summary of regulatory actions taken as a result of thematic review of bancassurance business of eight life insurers is as follows:

Nature of action	Numbers
Adjudication recommendation notes (ARNs)	19
Warning/advice letters	05

Examination of financial condition report of life insurers

During the year, the SECP conducted examination of financial condition report of the life insurers required to be submitted under Section 50 of the Insurance Ordinance, 2000. Through the examination of FCRs, certain non-compliances of applicable regulatory provisions were observed, as a result of which, four warning/advice letters were issued.

International relations

International Organization of Securities Commissions (IOSCO)

The SECP is an active member of the IOSCO, which is the leading international policy forum for securities regulators and is recognized as the global standard setter for securities' regulation. The organization's members regulates more than 95% of the world's securities' markets in more than 115 jurisdictions.

The SECP is a member of the IOSCO governing body, re-elected to the Board for a fourth consecutive term from the Asia Pacific region. The SECP is also active on various IOSCO forums, including Assessment Committee, Growth and Emerging Markets (GEM) Committee, Asia Pacific Regional Committee (APRC) and Policy Committee 3 on regulation of market intermediaries. Furthermore, the SECP is a full signatory to the IOSCO multilateral memorandum of understanding (MMOU) which is an international benchmark for cross-border cooperation and a tool for securities' regulators for combating the cross-border fraud and misconduct that can weaken global markets and undermine investor confidence.

IOSCO's Assessment Committee review of Pakistan

The IOSCO Principles provide an international benchmark for securities regulation practices against which progress of member jurisdictions towards effective regulation is measured. The IOSCO's Assessment Committee (AC) undertook a comprehensive Pakistan country review to assess the implementation of the IOSCO Principles. The final review was published after approval of IOSCO Board in July 2015. The review acknowledged progress achieved by the SECP since its last FSAP in 2004. It also gave valuable recommendations to further improve Pakistan's rating against international benchmarks.

Subsequently, the SECP took vigorous measures to address these recommendations through a comprehensive time-bound action plan. The progress achieved in the implementation of review recommendations was submitted to IOSCO through progress reports, first in December 2015 and then in July 2016. Considering that a follow-up review is significant to achieve the objective of implementation and progress on IOSCO review recommendations, the SECP urged IOSCO's AC for a follow-up review. The AC undertook Pakistan's follow-up review in 2017, making the SECP the first jurisdiction to undergo it.

In the context of follow-up country review of Pakistan, the SECP submitted a consolidated progress report to IOSCO's AC in June 2017, reflecting the actions taken to address the IOSCO's review recommendations. The AC follow-up review of Pakistan started in June 2017. Acknowledging substantial efforts made by SECP to ensure compliance with the IOSCO Principles, the IOSCO Review Team (RT) enhanced the SECP's compliance rating against IOSCO Principles to 83% from 62% in 2015 review. The Country follow-up review report for Pakistan was published by IOSCO in March 2018.

IOSCO Standards Implementation Monitoring (ISIM) Program

The SECP is a member of the Review Team (RT) of the IOSCO ISIM program on secondary and other market principles. The scope of this first program is to monitor the implementation of the principles for secondary and other market principles.

The ISIM exercise will allow IOSCO to present a global overview of implementation of the principles by members and gather useful feedback on the subject. In contrast to country reviews, the ISIM exercise aims to be less resource intensive and cover a larger population of member countries. A total of 40 jurisdictions participated in ISIM program. The SECP completed assessment of five jurisdictions under the program and submitted its review report to the IOSCO's AC. The review report is being finalized for publication by IOSCO.

International Association of Insurance Supervisors (IAIS)

In 1994, the insurance supervisors from across the world established the International Association of Insurance Supervisors (IAIS) as the international standard setter in the field of insurance regulation. It was also aimed at promoting effective international cooperation for information sharing among members for strengthening insurance supervisory regimes.

The SECP is a member of the association that now represents insurance supervisors from more than 200 jurisdictions, constituting 97% of the world's total insurance premiums. The SECP is closely working with the IAIS on its application to the IAIS MMOU. The IAIS MMOU is a global framework for cooperation and information exchange between insurance supervisors.

IAIS Core Principles (ICP)

The IAIS has adopted a comprehensive set of IAIS Core Principles (ICP) as the international regulatory benchmarks and best practices for the regulation and supervision of the insurance industry, to be implemented in all member jurisdictions. The World Bank in 2014 assessed Pakistan's implementation of ICPs and made various recommendations to enhance Pakistan's compliance with ICPs. To implement these recommendations, significant amendments have been made to the insurance legal framework. Necessary changes have already been implemented within the SECP's supervisory framework to align our regulatory framework with the international standards.

IAIS MMOU

In 2007, IAIS adopted a multilateral memorandum of understanding (IAIS MMOU) as an international benchmark for co-operation and information sharing among IAIS members. IAIS encourages global adoption of its MMOU considering that closer cooperation and information exchange among insurance supervisors is an extremely important aspect for strengthening insurance supervisory regimes. Considering that accession to IOSCO MMOU is important for the credibility of Pakistan's insurance markets, the SECP submitted its application to IAIS Secretariat seeking MMOU signatory status. As of June 30, 2018, the application was under validation by IAIS.

Multilateral matters

World Bank assessment under ROSC Program

The World Bank was invited to conduct a country assessment of accounting and auditing (A&A) under the Report on Observance of Standards and Codes (ROSC) program based on the SECP's self-assessment of ROSC (A&A). It may be noted that most of the gaps in implementation from 2005 ROSC (A&A) and 2016 ROSC (A&A) have already been addressed through appropriate provisions incorporated in the Companies Act, 2017. The implementation of the remaining recommendations is in progress. The World Bank published the ROSC (A&A) report of SECP in September 2017, which had been finalized in consultation with the SECP.

ROSC Corporate Governance self-assessment

A self-assessment of ROSC Corporate governance was carried out by the SECP during the year and the gaps identified have been addressed through appropriate provisions in the Companies Act, 2017, and amendments to the legal framework as well as systems and procedures. ROSC Corporate Governance self-assessment was shared with the World Bank for its review. The World Bank review team visited Pakistan in April-May 2017. Subsequently, the draft report was shared with SECP and feedback thereupon have been provided to the World Bank team. As of June 30, 2018, the bank was in the process of finalizing the Pakistan ROSC Corporate Governance assessment.

A self-assessment of ROSC Securities Settlement System was also completed by the SECP during the year and shared with the World Bank.

Implementation of OECD – Automatic Exchange of Information

Pakistan is a signatory to the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters, to combat tax evasion through automatic exchange information on residents' assets and incomes. The SECP is an active member of the pilot project team established by the Finance Minister to implement the convention within its regulated financial sector. The Common Reporting Standard Rules under the Income Tax Ordinance, 2001 in line with the OECD Standards were prepared and notified vide SRO No. 166(I), 2017, dated March 15, 2017, after extensive stakeholders consultation to set out the reporting requirements and due diligence procedures for the financial institutions. The SECP arranged various awareness sessions for the industry to create understanding of the industry on their reporting obligation under the rules.

UN Convention against Corruption – Country Review of Pakistan

The SECP contributed in the country review of Pakistan on implementation of the United Nations Convention against Corruption (UNCAC) undertaken by the international assessors in collaboration with the National Accountability Bureau (NAB). The SECP addressed the gaps identified by the assessors in the legal framework through improvements to the legal framework relating to chapters 3 and 4 of the convention concerning criminalization and law enforcement and international cooperation. The SECP is in the process of providing its input to NAB to conduct self-assessments under chapters 2 and 5 of the convention relating to preventive measures and asset recovery.

Future outlook

- Keeping in view the importance of being an active member of international bodies recognized as global standard setter for regulators, the SECP will submit its application to become a signatory to IOSCO's enhanced multilateral memorandum of understanding (EMMOU), which will ensure greater information sharing and cooperation among IOSCO members.
- In FY-2019, SECP will also endeavor to complete validation process for SECP's accession to the IAIS MMOU.
- The SECP will also strive to develop and implement a structured strategy for the international finance institutions (IFIs) to get maximum assistance in the SECP's reform agenda for its regulated sectors.

Investor education

Through its flagship investor education program 'JamaPunji', the SECP has been interacting with audiences so that capital market, insurance and non-banking financial sectors become preferred avenues for the public to make considered financial investments. The emphasis during these sessions remains on awareness so that the public could be saved from financial frauds and scams.

During FY-2018, the Investor Education Department signed 16 additional MOUs with private and public sector colleges and universities across the country. These included MOUs with International Islamic University Islamabad, IBA-CEIF Karachi, Greenwich University Karachi, Dadabhoy Institute of Higher Education Karachi, University of the Punjab Lahore, Government College University Lahore, Beaconhouse National University Lahore, CECOS University of IT and Emerging Sciences, Shaheed Zulfikar Ali Bhutto Institute of Science and Technology Lahore, and the University of Agriculture Peshawar.

With a firm belief in women education and empowerment, the SECP focused particularly on making relevant alliances in the academic circuit and successfully signed additional MOUs with Jinnah University for Women, Karachi, Kinnaird College for Women, Lahore, GC Women University, Sialkot, and Women University, Swabi.

The SECP also signed MOUs with a leading think tank, the Pakistan-China Institute, and with the National Incubation Centre in Peshawar, which was inaugurated by Prime Minister Shahid Khaqan Abbasi on January 13, 2018.

In accordance with the MOUs, the SECP successfully conducted 92 interactive awareness seminars in multiple cities, including Islamabad, Lahore, Karachi, Peshawar and Taxila. The events included classroom awareness sessions, mentoring for women entrepreneurs and start-ups, incentives-based stock trading competitions between groups of university students and world investor week celebrations etc.

In addition, audiences and investors were regularly engaged through a vigorous investor education digital outreach program. The online 'Jamapunji' portal's public interface was given a complete facelift and its media and interactive segments were enhanced for a better visitor experience. In particular, the 8181 SMS service was used more efficiently to send more meaningful, educational and regular public awareness messages to equip the public with relevant information for better personal financial planning and prevention from financial scams and frauds. The SECP's social media platforms such as Twitter and Facebook were also improved in terms of visual and intellectual content and information sharing for optimal investor awareness impact.

Key achievements

- 18,850 registered users with JamaPunji portal (www.jamapunji.pk)
- 30,100 likes on Facebook and 2,300 followers on Twitter
- 1,800 people subscribed to 8181 SMS service
- 2,100,000 total visits to JamaPunji portal since its inception
- Established collaborative partnerships to promote investor education by signing MOUs with 16 more institutions:

  i. CECOS University of Information Technology and Emerging Sciences, Peshawar
  ii. Government College Women University, Sialkot
  iii. Shaheed Zulfikar Ali Bhutto Institute of Science and Technology, Karachi
  iv. The University of Agriculture, Peshawar
  v. University of the Punjab, Lahore
  vi. Women University, Swabi
  vii. National Incubation Centre, Peshawar
  viii. Jinnah University for Women, Karachi

ix. IBA-CEIF, Karachi
x. Greenwich University, Karachi
xi. Dadabhoy Institute of Higher Education, Karachi
xii. International Islamic University, Islamabad
xiii. Pakistan-China Institute
xiv. Kinnaird College for Women, Lahore
xv. Government College University, Lahore
xvi. Beaconhouse National University, Lahore

- Conducted more than 92 seminars/sessions in collaboration with universities, corporate bodies, professional accounting bodies, start-ups, ORICs etc.
- Participated in Preston Entrepreneurial Challenge PEC'18 at national level
- Organized a mock trading competition at university level with cash prizes incentives
- Investor education material has been developed and disseminated for public awareness through Central Depository Company (CDC), Pakistan Stock Exchange Limited (PSX) and Mutual Fund Association of Pakistan (MUFAP) and various insurance companies
- Investor awareness sessions were conducted for the employees of Pakistan Oilfields Limited (POL), Pakistan Television (PTV), Civil Aviation Authority (CAA), National Incubation Centre (NIC), Management Development Institute, Pakistan (MDI), Hashoo Group and a few more organizations
- Participated in corporate networking events organized by the Association of Chartered Certified Accountants (ACCA) in Lahore, Karachi and Islamabad, WeCreate Islamabad Chapter, TIE -Islamabad chapter and Chamber of Commerce
- Conducted a master trainer program in collaboration with HEC and also led various sessions with ORICs
- Participated in "All Pakistan Women Chambers President's Summit" organized by the Rawalpindi Chamber of Commerce
- Participated in Pakistan Summit organized by the Corporate Pakistan Group & Nutshell

Future outlook

- Developing a revised investor education plan/strategy
- Collaborate with SROs to conduct an industry wide survey to evaluate investor confidence and gaps in investor awareness strategy.
- Expanding JP from existing segments to

i. Armed forces
ii. Government institutions
iii. General public/train the trainer

- Engaging resource persons for conducting seminars and carrying out research and surveys with PSX, CDC , MUFAP, NCCPL and other market experts
- Investor education measures relating to CES, e-Application and e-dividend.
- Using CIIT virtual facilities for awareness sessions
- Expanding Faculty Development Programs for universities
- Conducting more stock trading competitions through JamaPunji Web Portal.
- Organizing various IE activities including sessions, webinars, student visits, panel discussions etc. in collaboration with ACCA
- Collaborating with provincial educational departments for inclusion of savings and investments course at secondary and higher secondary levels
- Signing more MOUs with corporate/academic institutions
- Developing and disseminating investor education material in the form of guide booklets and flyers
- Capacity building of the faculty members of various universities as resource persons to conduct JamaPunji seminars

- Expanding the outreach of Investor Education Plan with universities of KPK, Sindh, Balochistan and Punjab by holding maximum educational seminars
- Radio programs from educational channels managed by various universities and through FM/Radio Pakistan
- Holding of orientation sessions to promote entrepreneurship among the students in collaboration with the HEC
- Developing curriculum in collaboration with Higher Education Commission (HEC) for management science programs.

Grievance resolution

On June 2, 2017, the SECP launched its web-based centralized Service Desk Management System (SDMS), a public platform for filing of queries and complaints with SECP with convenience. After the successful launch of the SDMS, this year SECP further leveraged technology to deliver a mobile application of the SDMS in the palm of the public, further ensuring prompt action and regular updates on their complaints. As a result, the SECP successfully handled more than 4,624 complaints. In addition, the SDMS team entertained 22,455 queries using each contact to facilitate financial awareness while regularly sharing requisite statistics with the Federal Ombudsman for their record.

The digitalization of the grievance system ensures:

Better information security

The App requires a mobile phone PIN verification without which lodging a query or complaint is not possible. Moreover, the registration of the user is synchronized with the individual's email ID and unique mobile number. This ensures that an individual with a trackable real identity is lodging a concern with the SECP and it is not frivolous.

Regular SMS and e-mail notifications

In the case of any lodged query/complaint, the app not only auto generates prompts via email and SMS to the concerned regarding any new action taken by the relevant handling department of the SECP but also sends pop-ups through the mobile app itself.

Quick and easy tracking

The interface of the mobile application is easy to navigate through and to use. The app enables users to keep respond readily available by using his/her individual mobile phone without having to log into the SDMS using a desktop or laptop computer system thus providing functionality and convenience on the go.

Instant and hassle-free communication

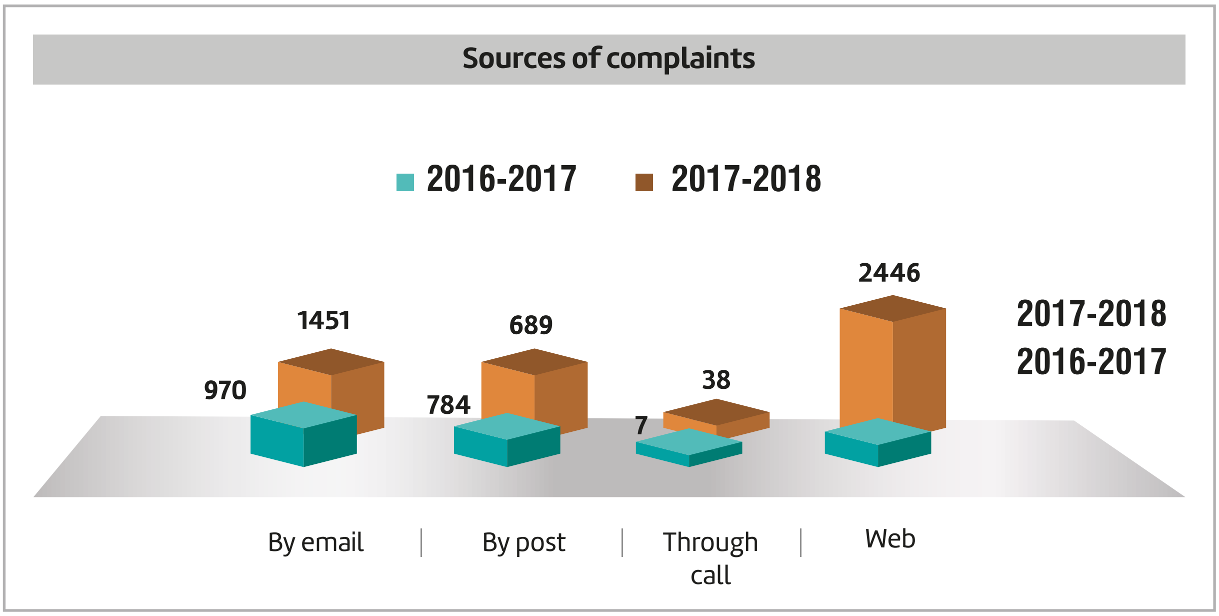
The app enables regular and reliable status tracking and has many valuable features. Additionally, the app allows the user to directly attach and upload required supporting evidences in specified formats.

Highlights

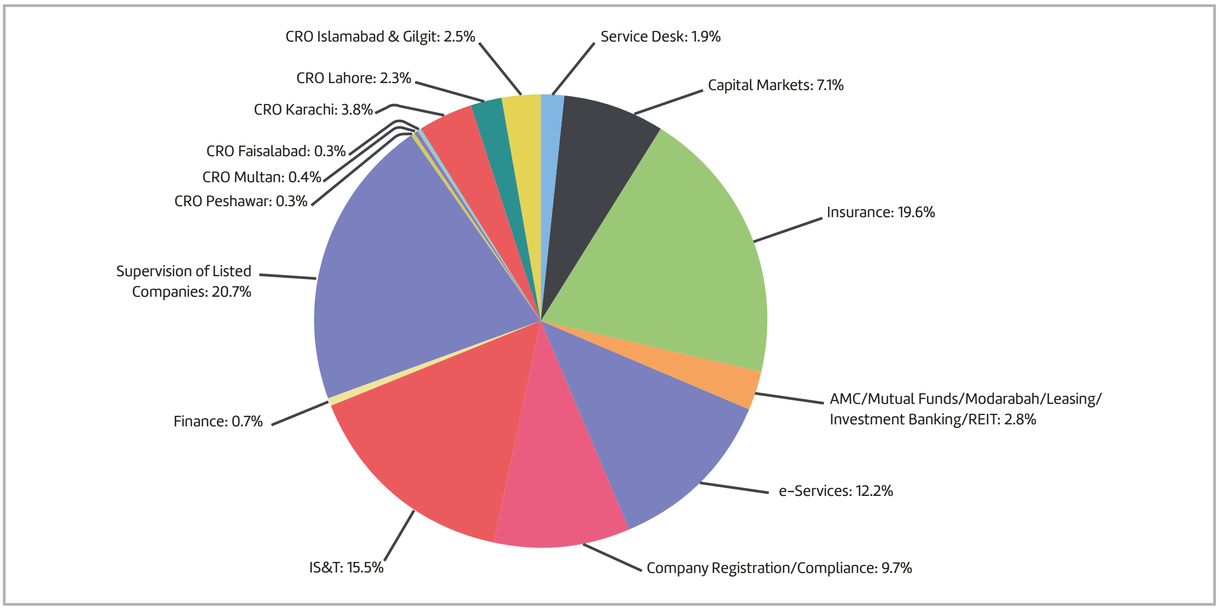
Complaints

During FY 2017-18, the SECP received 4,624 complaints. In comparison, it is three times more than the complaints received during the previous year owing to the effective 'JamaPunji' awareness outreach in particular about the web-based SDMS interface resulting in increased use of the online channel.

Thirty-two percent of all complaints were received through e-mail, 16% by post and 2% were received through calls. The remaining 50% were lodged through the online system as compared to the 10% lodged through web in the previous fiscal year.

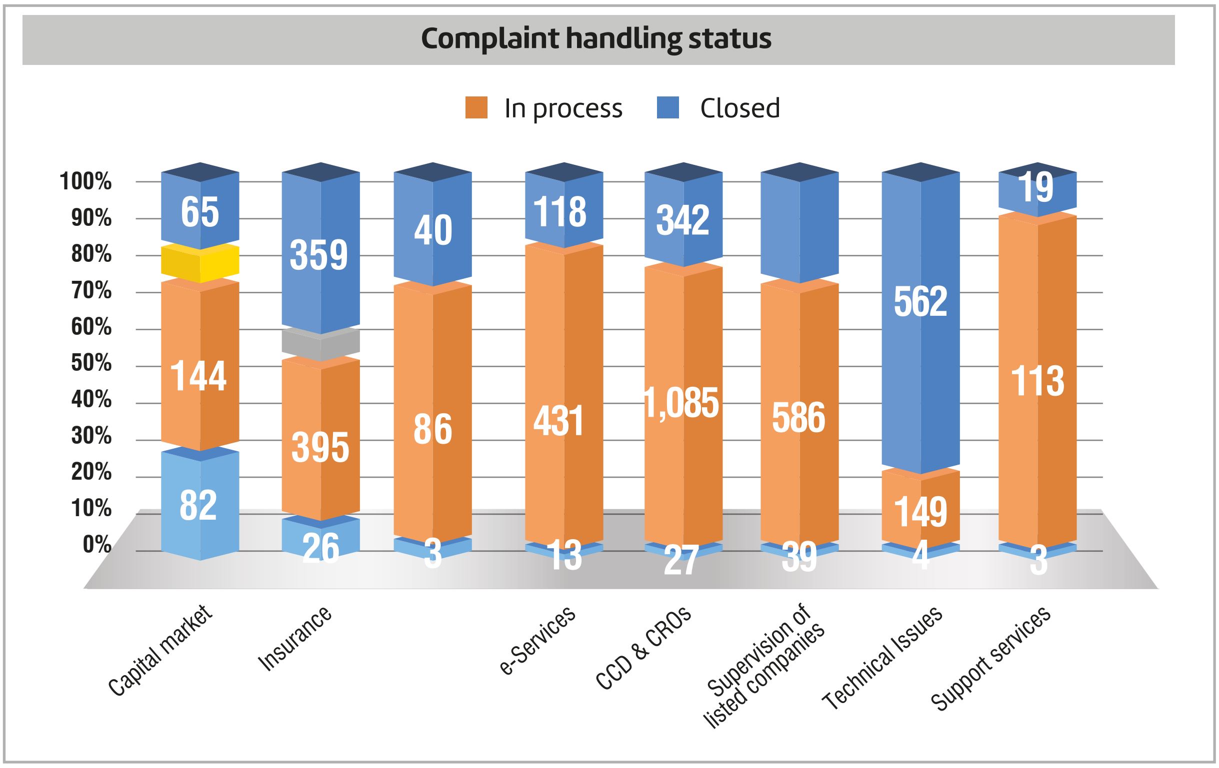


Out of the total 4,624 complaints 82% were handled by SECP's operational departments, whereas 18% were managed by the support service departments.



The Service Desk Guidelines, 2017, allow assigning complaints to any of the following statuses during the handling process and upon concluding action on them:

1. In process
2. Closed
3. Resolved
4. Third party referred
5. Sub judice



Most common nature of complaints received during the year related to issues of:

- eServices and technical nature
- Settlement of claims against non-active brokers in the case of capital markets
- Refund of premium/policy cancellation, bancassurance, and claims in the case of insurance
- AMCs, mutual funds and RIETS in case of SCD
- Transfer of shares, dispatch of shares, signature verifications etc. in case of CSD

Queries

A total number of 22, 455 queries were handled in FY 2017-2018, out of which approximately 14,000 were received through telephone calls. In case of queries, it can either be assigned the status "In Process" or "Closed".

With the implementation of the web-based SDMS and the SDMS mobile App, SECP will have a better capability to add more value and allow improvements to internal operations in the future.

Anti-money laundering

In line with the government's agenda of combating money laundering and terror financing, the SECP has taken effective measures to address any potential of money laundering and terror financing within the capital markets, insurance, the NBFCs and the non-profit corporate sector. During the year, gaps in the implementation of FATF recommendations were addressed prior to APG Mutual Evaluation. In the wake of the FATF's grey listing, implementation of FATF's action plan was strategized by collaborating with various national stakeholders to demonstrate the effectiveness of the framework and systems as required under international obligations.

As a member of the Asia Pacific Group, it was mandatory for Pakistan to adopt AML/CFT regulatory framework in compliance with FATF recommendations. Following the gap analysis review of the existing AML/CFT framework with the FATF's standards, the SECP notified Anti-Money Laundering/Counter Financing of Terrorism Regulations, 2018 vide notification S.RO. 770 (I)/2018 dated June 13, 2018, for the SECP regulated financial institutions namely securities brokers, commodities brokers, insurance companies, non-banking finance companies and modarabas. A single set of regulations for all the aforementioned financial institutions harmonize the AML/CFT regime.

The Anti-Money Laundering Department consolidates the efforts of the operational departments by providing them necessary assistance and support to enhance the compliance level and aims to raise awareness among regulated entities on their obligations under the AML/CFT regime.

Regulatees' statistics

Regulated entities	Number of entities
Securities brokers	236
Commodities brokers	137
Non-banking finance companies (NBFCs)	67
Modarabas	30
Insurance companies	50
Non-profit organizations (NPOs)	553

Future outlook

Following the promulgation of the SECP AML/CFT Regulations, 2018, transition to risk-based program remains a challenging task. In order to provide guidance to the regulated entities Guidelines to the SECP AML/CFT Regulations, 2018, will be issued in addition to developing the risk-based approach for the SECP's supervisory regime and enforcement action policy against non-compliant financial institutions.

In conjunction with the financial institutions, monitoring framework for associations with charitable and non-profit objects licensed under Section 42 of the Companies Act, 2017, will be developed and efforts will be made to enhanced the effectiveness of implementation of UN Security Council resolutions.

The SECP works in close collaboration with national stakeholders' such as FMU, SBP and international assessors for APG/IMF/World Bank mutual peer review and evaluation of SECP's regulated financial sector.

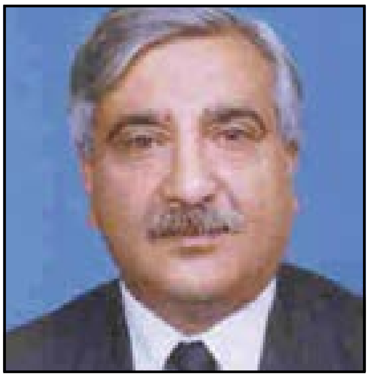
Securities and Exchange Policy Board

As of October 30, 2018, the Policy Board consisted of the following individuals:

Ex officio members

Mr. Arif Ahmed Khan
Finance Secretary
Chairman, Securities and
Exchange Policy Board

Mohammad Younus Dagha
Secretary,
Commerce Division

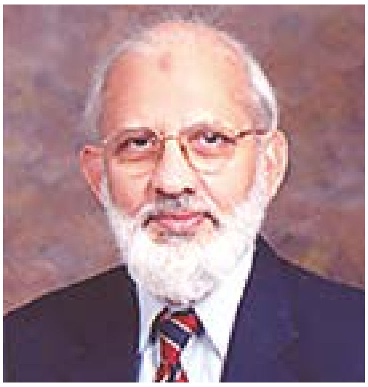


Justice (ret) Abdul Shakoor Paracha
Secretary, Law

Tahir Mahmood
Acting Chairman, Securities and
Exchange Commission of Pakistan

Jameel Ahmad
Deputy Governor
State Bank of Pakistan

Private sector members



Ebrahim Sidat

Javed Aslam Callea

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

Mr. Arif Ahmed Khan has been the board chairman since January 10, 2018. Prior to him, Mr. Tariq Bajwa served as the board chairman from February 3, 2017, to June 17, 2017. Mr. Osman Saifullah Khan and Hafiz Mohammad Yousaf ceased to be members from private sector on Policy Board on completion of their four-year terms on September 3, 2017. The federal government re-appointed them as members from the private sector on Policy Board on November 21, 2017. However, Mr. Osman Saifullah Khan resigned on December 20, 2017, and Hafiz Mohammad Yousaf on February 26, 2018. Mr. Kamal Hassan Siddiqui ceased to be a member from private sector on serving out his four-year term on December 25, 2017.

The details of Policy Board meetings held during the financial year 2017-18 are as under:

S. No.	Names of members	Number of meetings held	Number of meetings attended
1.	Secretary, Finance Division/Board Chairman	4	4
2.	Chairman, SECP	4	4
3.	Secretary, Law and Justice Division	4	3
4.	Secretary, Commerce Division	4	4
5.	Deputy Governor, State Bank of Pakistan	4	2
6.	Hafiz Mohammad Yousaf	2	2
7.	Mr. Kamal Hassan Siddiqui	2	2
8.	Mr. Javed Aslam Callea	4	4
9.	Mr. Ebrahim Sidat	4	4
10.	Mr. Osman Saifullah Khan	1	1

Board's objectives

The board has been entrusted to

i. When so asked to do and after consultation with the SECP, advise the federal government on all matters which fall within the SECP's regulatory ambit
ii. Consider and approve, with or without modifications, any regulation with respect to implementation of the policy decisions, proposed to be made by the SECP
iii. Consider and approve, with or without modifications, the SECP's budget for each financial year
iv. Express its opinion in writing on any policy matter referred to it by the federal government or the SECP
v. Oversee the SECP's performance to the extent that the purposes of the Act are achieved
vi. Exercise all such powers and perform all such functions as are conferred or assigned to it under the Act

vii. Specify fees, penalties and other charges, chargeable by the SECP to achieve the purposes of the Act

Apart from the above, all policy decisions, including any changes to the previously established policies, in respect of all and any matter within the SECP's jurisdiction shall be made only by the board. The board may make policy decisions suo motu or adopt such policy recommendations of the SECP, with or without modifications, as the board may deem fit in its discretion.

During the year, four meetings of the board were held wherein 24 agenda items and two other business items were taken up and decided appropriately. The board considered various matters, including the following and gave approval/direction thereon:

- The SECP's Annual Report of the year 2016-17 for submission to the federal government
- Presentation on overall functioning of the SECP
- Revision of the pay scale of CPS grade employees of the SECP
- Allowing marketing and selling expenses to be charged to mutual funds to increase retail investor base
- Amendments to the HR Manual
- Amendments to the Insurance Rules, 2017
- Credit and Suretyship (Conduct of Business) Rules, 2018
- Securities and Exchange Commission Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Regulations, 2018 (draft)

Board's Oversight Committee

In order to assist the Policy Board in overseeing the SECP's performance to the extent that the purposes of the Act are achieved, the Oversight Committee held two meetings wherein certain recommendations were made before the Policy Board for its approval.

The details of Oversight Committee meetings held during the financial year 2017-18 are as under:

S. No.	Names of members	Number of meetings held	Number of meetings attended
1.	Hafiz Mohammad Yousaf, Chairman	1	1
2.	Chairman, SECP	2	2
3.	Mr. Kamal Hassan Siddiqui	2	2
4.	Raja Naeem Akbar, Legislative Advisor, Law Division	2	2

The Commission

Mr. Tahir Mahmood

Acting Chairman

Mr. Tahir Mahmood has been associated with the Securities and Exchange Commission of Pakistan/the erstwhile Corporate Law Authority since 1989. Prior to his appointment as a Commissioner by the federal government in September 2010, he had been serving as the Executive Director (Enforcement) since July 2006.

A fellow member of the Institute of Cost and Management Accountants of Pakistan (ICMAP) and the Institute of Corporate Secretaries of Pakistan (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 over 600 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. 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). He assumed the charge of acting Chairman SECP on October 24, 2018.

Mr. Shaukat Hussain

Commissioner

Mr. Shaukat Hussain is a commerce graduate and a fellow member of the Institute of Cost and Management Accountants of Pakistan (ICMAP). He has a professional experience of over 32 years. Before assuming charge as a Commissioner on March 27, 2018, he was Executive Director/Registrar of Companies and HOD of Corporatization and Compliance Department at the SECP. He joined the SECP as a Joint Registrar in September 2000. He has headed the SECP's offices in Karachi, Islamabad and Peshawar. He has also worked as Director, Securities Market Division.

Prior to joining the SECP, he had worked with a professional accountancy firm, a development financial institution and listed companies of both public and private sectors.

Mr. Shauzab Ali

Commissioner

Mr. Shauzab Ali is a chartered accountant with more than 25 years professional experience with focus on public policy and finance, development finance, capital markets, corporate and investment banking, portfolio management and financial management.

Before joining the SECP as a Commissioner in March 2018, he was with the Asian Development Bank, where he was responsible for all the public and financial sector activities of the bank in Pakistan. Before that he worked with Standard Chartered and Allied Bank in senior positions in corporate and investment banking and financial control functions. After qualifying as a chartered accountant, he worked with the NBFC sector for more than five years in senior positions, including CFO of an investment bank and the Lahore Stock Exchange.

Mr. Zafar Abdullah

Commissioner

Mr. Zafar Abdullah earned his bachelor's degree in commerce from the University of Karachi. He is a fellow member of the Institute of Chartered Accountants of Pakistan. He did his articles at 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 an Executive Director in the Securities Market Division, Karachi Stock Exchange as Chief of Operations, Central Depository Company as Head of Operations, Dewan Mushtaq Group as Chief Compliance Officer/Company Secretary and Crosby Securities Pakistan Limited as Chief Executive Officer. He also worked for Faysal Bank Limited as Company Secretary and Head of Legal Division. Mr. Zafar Abdullah also served as acting SECP Chairman from July 24, 2017, to May 11, 2018 and served out his term as Commissioner on August 16, 2018.

Mr. Muhammad Zafar-Ul-Haq Hijazi

Commissioner

Mr. Muhammad Zafar-ul-Haq Hijazi took over as the Chairman of the Securities and Exchange Commission of Pakistan on December 19, 2014. A chartered accountant by profession, he has extensive experience spanning over 35 years, both in the private sector and as a senior emerging markets regulator of corporate sector and capital markets. He has attended many international conferences, seminars and courses. From January 1, 1999 to December 31, 2003, Mr. Hijazi had served the SECP as Commissioner, Company Law, Administration and Enforcement Division. He introduced significant legal and regulatory reforms to improve the quality of corporate disclosure, corporate restructuring and corporate finance. He has also held senior management positions in various private companies. He served out his term as Commissioner on December 17, 2017.

Mr. Akif Saeed

Commissioner

Mr. Akif Saeed remained associated with the SECP from 2004 to 2017. In December 2014, the federal government appointed him as a Commissioner. At the time, he was heading the Securities Market Division and the Investor Education and International Relations Departments prior to his completion of term in December 2017. He has extensive regulatory, operational and business knowledge of various infrastructure entities and intermediaries operating in the capital markets. He significantly contributed to various legal and regulatory reforms for enhanced corporate governance, transparency, risk management and measures for compliance with the IOSCO benchmark principles of securities regulation. He led the teams, which developed Securities Act, 2015, the code of corporate governance, investor education web portal and framework for voluntary pension system, private equity and venture capital funds, and real estate investment trusts. Prior to joining the SECP, he worked with American Express Bank as manager corporate banking for nine years and Packages Limited for three years. He earned his master's in economics from Government College, Lahore, and MBA from the University of Edinburgh. He won the Chevening Scholarship and President's Talent Farming Scholarship in economics. He served out his term as Commissioner on December 17, 2017.

Mr. Fida Hussain Samoo

Commissioner

Mr. Fida Hussain Samoo served as a Commissioner at the SECP from December 18, 2014 to December 17, 2017. He oversaw the Insurance Division. He has over three decades of professional experience in insurance and reinsurance industry, making him well placed to address the industry's issues. He did his bachelor's in law and master's in commerce from Sindh University. He earned his MBA at Indiana University of Pennsylvania. In addition, he received various trainings in the UK, Thailand, Singapore, Switzerland, Australia, China and Malaysia. He had also served on various technical committees, working groups and task forces formed by the government of Pakistan and the Pakistan Reinsurance Company Limited (PRCL). He started his insurance career with the Pakistan Reinsurance Company Limited (PRCL), the then Pakistan Insurance Corporation, as manager and retired in May 2014, as an Executive Director. His persistent efforts transformed the financial results of the PRCL from an underwriting loss of Rs102 million in 1997-2000 to the underwriting profit of Rs509 million in 2012. He served out his term as Commissioner on December 17, 2017.

Commission's Secretariat

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

The details of Commission's meetings held during the financial year 2017-18 are as under:

S. No.	Names of Commissioners	Number of meetings held	Number of meetings attended
1	Mr. Shaukat Hussain, Chairman	14	14
2	Mr. Zafar Abdullah, Commissioner	54	51
3	Mr. Tahir Mahmood, Commissioner	54	50
4	Mr. Shauzab Ali, Commissioner	11	11
5	Mr. M. Zafar-ul-Haq Hijazi, former Chairman	03	03
6	Mr. Akif Saeed, former Commissioner	22	22
7	Mr. Fida Hussain Samoo, former Commissioner	22	21
*As of June 30, 2018			

Conduct of business

During the year, the secretariat convened 49 regular and five emergent meetings of the Commission, wherein 620 working papers of departments/divisions and 88 other business items were considered and decided appropriately. Besides, the Commission also passed five resolutions by circulation and decided urgent matters of departments/divisions. The Commission's Secretariat on behalf of the Commission, issued 135 statutory regulatory orders/notifications and facilitated issuance of 30 circulars.

Appellate Bench

Appellate Bench Registry

The Appellate Bench of the SECP is a quasi-judicial forum, which is legally mandated to hear appeals filed against the orders passed either by a Commissioner or any other officer authorized by the SECP. The Appellate Bench comprises of two Commissioners. The Appellate Bench Registry of the Commission is headed by the Registrar, Appellate Bench. Administratively, the registrar reports to the Commissioner, Company Law Division. During the year 2017-18, the Appellate Bench disposed of 44 appeals with a single bench available for hearing in first half of the year and three more benches available in the second half of the year.

Future outlook

In order to dispose of pending appeals, the Appellate Bench Registry has planned to fix appeals on a weekly basis. The Appellate Bench besides conducting hearings at the head office in Islamabad in order to facilitate regulated entities, also conducts hearings through video conferencing from CROs in Lahore and Karachi. The backlog of pending appeals is expected to be eased. Between July 2017 and June 2018, the Appellate Benches have conducted 68 hearings. The early hearing of appeals has been a demand of the regulated entities. With the appointment of additional Commissioners and availability of four Appellate Benches, it is expected that by the end of the financial year 2018-19, the backlog of pending appeals shall be cleared.

In collaboration with IS&T Department, the Appellate Bench Registry has put in place a database which provides information on the status of pending appeals and appeals disposed of by the Appellate Bench and a database where orders passed by the Appellate Bench are scanned and archived.

Internal audit and compliance

The Internal Audit and Compliance Department (IACD) assists the SECP's management in controlling its various activities. The IACD has an independent status within the SECP and for that purpose it reports functionally to the Audit Committee and administratively to the Chairman directly. The department accomplishes its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the SECP's risk management, control and governance processes and by providing independent appraisal of all the SECP activities aimed at adding value and improving operational efficiency.

Audit committee

The Policy Board has the authority to appoint audit committee's members and chair. The audit committee comprises of three members, including two private sector members and one ex officio member of the Securities and Exchange Policy Board. At present, the Committee comprises of Mr. Ebrahim Sidat being chairman of the committee, Mr. Javed Aslam Callea and ex officio Secretary, Commerce Division. During the year 2017-18, four meetings of the committee were held on August 18, 2017, September 25, 2017, October 31, 2017, and February 1, 2018.

Audit activities during 2017-18

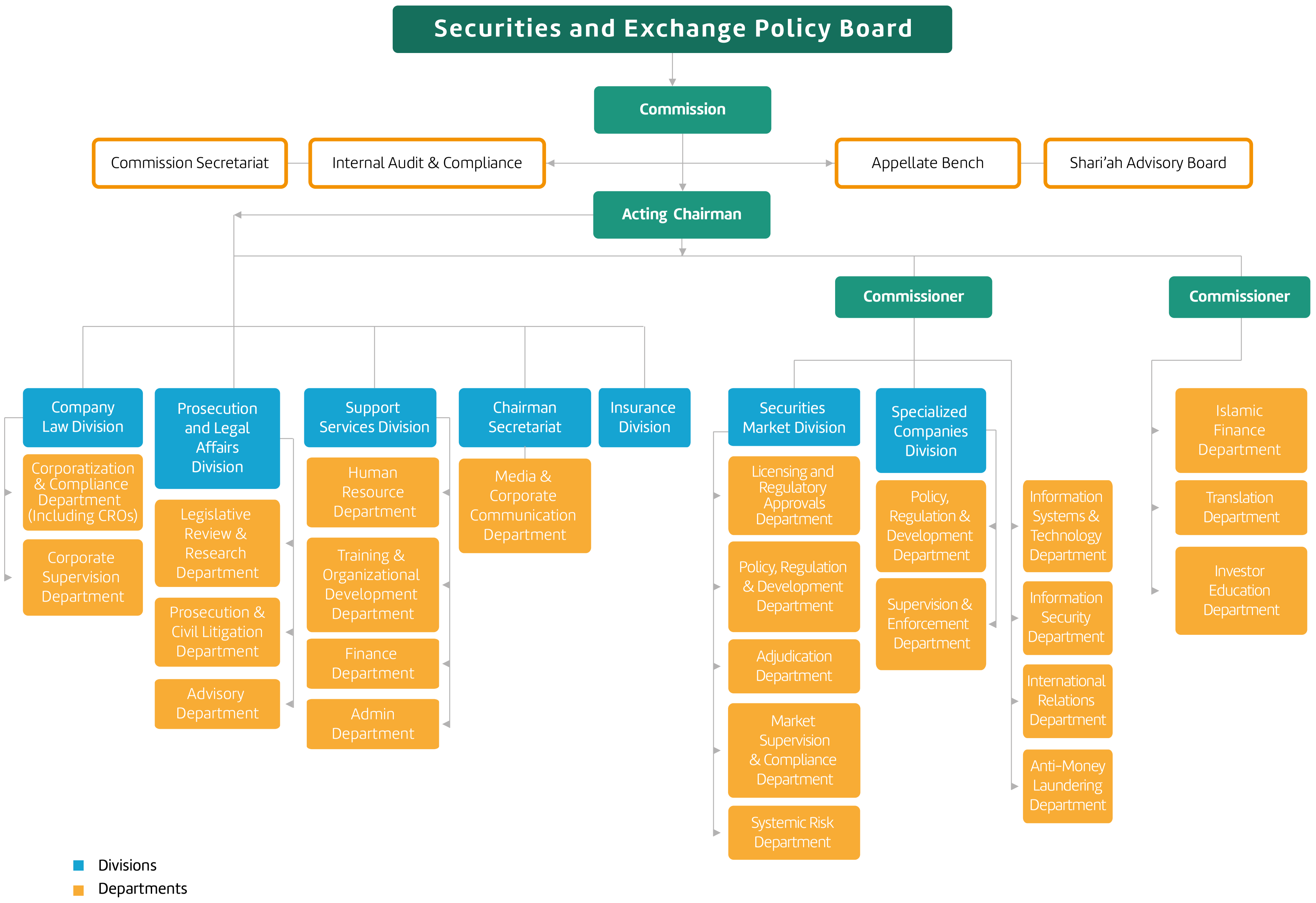
The IACD carries out its responsibilities by conducting audits based on the approved annual audit plan, which is developed using a risk-based methodology. The main activities of the department for the year 2017-18 included performing predominantly risk-based audits, including financial, operational and compliance audits, for the areas identified in the annual audit plan.

This year under the approved annual audit plan for the year 2017-18, the IACD performed a total of 23 audits, including 13 compliance audits, six financial audits and four IT audits. The IACD also pre-audited 24 cases relating to the CAPEX and 89 cases relating to the OPEX. Further, 65 payment vouchers referred to it by the funds section covering payments on account of pensions, provident fund, gratuity and leave encashment were also pre-audited. The observations, as emanating from the scrutiny, were communicated to the respective departments for taking appropriate corrective actions. Remedial corrective actions as suggested by IACD were taken by the respective departments.

Reporting to audit committee

All reports of the audits performed under annual audit plan for the FY 2017-18 were presented to the audit committee for its consideration in various audit committee meetings held during the year. Where applicable, IACD conducted follow-up audits to ensure that management's remedial actions were implemented appropriately and provided updates on the implementation status to the audit committee.

Organizational structure of SECP



Senior management

Shahid Nasim
Executive Director/HOD,
Supervision and Enforcement
Department, SCD

Muhammad Asif Jalal Bhatti
Executive Director/HOD,
Licensing and Regulatory
Approvals Department, SMD

Aamir Khan
Chief Spokesperson
Executive Director/HOD,
Chairman's Secretariat/Media and
Corporate Communications Department

Musarat Jabeen
Executive Director/HOD,
Policy, Regulation and Development
Department, SMD
Adjudication Department, SMD

Bilal Rasul
Secretary to the Commission/Policy Board,
Executive Director/HOD,
Registrar, Appellate Bench,
Islamic Finance/Translation Department

Ali Azeem Ikram
Executive Director/HOD,
Insurance Division

Bushra Aslam
Executive Director/HOD,
Systemic Risk Department, SMD
Information Security Department/
Registrar, Modaraba, SCD

Abid Hussain
Executive Director/HOD, Corporate
Supervision Department, CLD

Muzzafar Ahmed Mirza
Executive Director/HOD,
Training and Organizational
Development Department

Jawed Hussain
Executive Director/HOD, Corporate Compliance Department, CLD

Imran Inayat Butt
Executive Director/HOD
Policy, Regulation and Development Department, SCD

Khalida Habib
Executive Director/HOD, Investor Education/International Relations Department/AML Department

Khalid Iqbal
Director/HOD, Human Resource Department

Waseem Irshad
Director/HOD, Admin & IS&T

Maheen Fatima
Director/HOD, Internal Audit and Compliance Department

Amina Aziz
Director/HOD, Market Supervision and Compliance Department, SMD

Liaqat Ali Dolla
Registrar of Companies, Corporate Compliance Department, CLD

Arshad Mahmood
Additional Director/HOD,
Finance Department

Statistics

Table 1: Number and types of companies		
Types of companies	**Newly incorporated companies for the financial year ending June 30, 2018**	**Total companies as of June 30, 2018**
Companies limited by shares:		
Public listed	-	532
Public unlisted	71	2,525
Private	9,134	77,084
SMCs	2,007	5,182
Total companies limited by shares	**11,212**	**85,323**
Associations not for profit u/s 42	84	906
Companies limited by guarantee u/s 43	3	75
Trade organizations	11	305
Foreign companies	55	1,001
Limited liability partnership	5	5
Public companies with unlimited liability	-	1
Private companies with unlimited liability	-	1
Companies u/s 503(2)	-	3
Total companies	**11,370**	**87,620**

Table 2: Capitalization breakdown as of June 30, 2018						
	Listed companies	Unlisted public companies	Private companies	SMCs	Total	% age
Paid-up capital up to Rs100,000	-	440	30,510	3,586	34,543	40.5
Paid-up capital from Rs100,001 to 500,000.	-	300	12,145	783	13,228	15.5
Paid-up capital from Rs500,001 to 1,000,000	-	123	9,050	414	9,587	11.2
Paid-up capital from Rs1,000,001 to 10,000,000	11	353	18,642	316	19,322	22.6

Paid-up capital from Rs10,000,001 to 100,000,000	122	651	5,331	78	6,182	7.2
Paid-up capital from Rs100,000,001 to 500,000,000	178	388	1,102	4	1,672	2.0
Paid-up capital from Rs500,000,001 to1,000,000,000	73	95	156	1	325	0.4
Paid-up capital from Rs1,000,000,001 to above	148	175	148	-	471	0.6

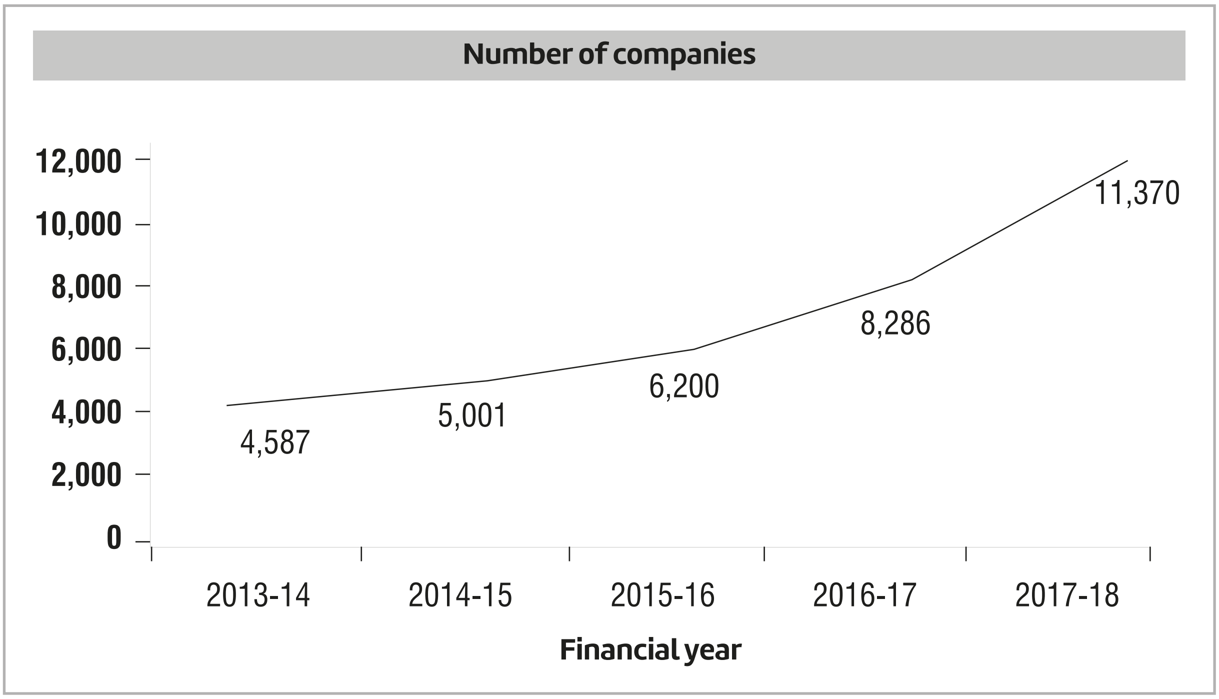
Table 3: Sector-wise distribution

Sector	Newly incorporated companies for the financial year ending June 30, 2018	Total companies as of June 30, 2018
Arts and culture	9	9
Auto and allied	161	1,180
Broadcasting and telecasting	135	1,046
Cables and electric goods	107	939
Carpets and rugs	8	78
Cement	12	123
Chemical	113	1,751
Communications	173	2,921
Construction	1,310	6,026
Corporate agricultural farming	340	2,007
Cosmetics and toiletries	8	8
Education	330	1,824
Engineering	373	2,471
Finance and banking	24	1,168
Food and beverages	401	3,079
Footwear	13	97
Fuel and energy	160	1,856
Ginning	2	335
Glass and ceramics	14	276
Healthcare	172	1,011

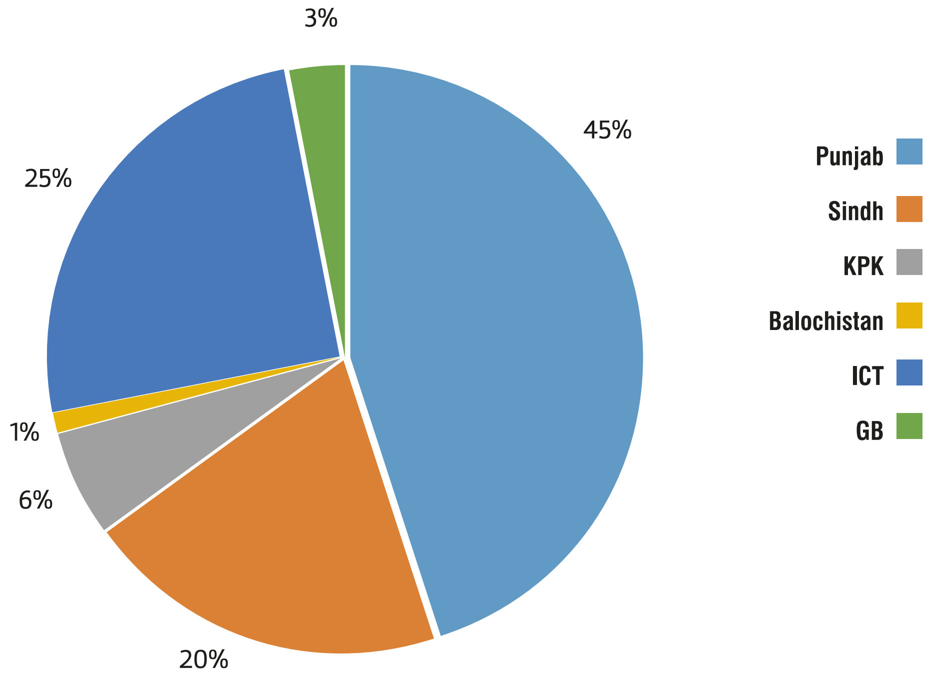
Information technology	1,375	5,724
Insurance	14	282
Jute	1	20
Leather and tanneries	19	396
Lodging	105	628
Marketing and advertisement	40	40
Mining and quarrying	124	810
Paper and board	102	1,387
Pharmaceutical	203	1,941
Power generation	102	1,386
Real estate development	311	2,047
Services	1,632	10,680
Sports goods	19	256
Steel and allied	69	702
Sugar and allied	6	193
Synthetic and rayon	11	225
Textile	186	4,999
Tobacco	10	88
Tourism	571	12,699
Trading	1,688	5,581
Transport	215	1,685
Vanaspati and allied	15	473
Wood and wood products	36	256
Miscellaneous	651	6,917
TOTAL	**11,370**	**87,620**

Table 4: Foreign companies' data by country/region

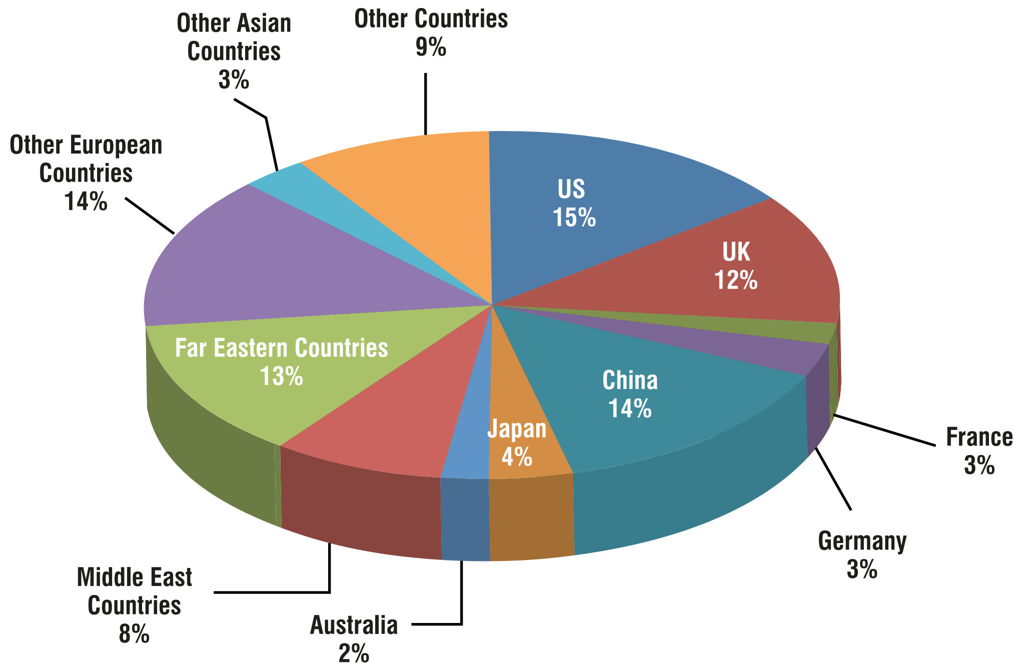
Country	Newly Incorporated companies FY 2017-18	Number of companies as of June 30, 2018
US	3	154
UK	5	118
France	1	25
Germany	1	30
China	21	145
Japan	0	37
Australia	1	21
Middle East countries	6	80
Far Eastern countries	9	133
Other European countries	4	138
Other Asian countries	0	27
Other countries	4	93
Total	**55**	**1,001**



Province-wise new incorporation during FY 2017 – 18



Foreign companies portfolio



Capital markets

Table 5: Privately placed debt securities

Sr. No.	Names of securities	Number of issues	Amount (In billion rupees)
1	Privately placed term finance certificates	07	19.5
2	Privately placed sukuks	08	29.53
3	Privately placed commercial papers	04	4.42
Total		**19**	**53.45**

Table 6: Corporate debt securities outstanding

Sr. No.	Names of securities	Number of issues	Amount (In billion rupees)
1	Listed term finance certificates (L-TFCs)	14	27.597
2	Privately placed TFCs (PP-TFCs)	43	107.612
3	Sukuk (listed and privately placed)	46	628.78
4	Participation term certificates	01	0.358
5	Privately placed commercial paper	03	2.92
Total		**107**	**767.267**

Table 7: Equity: retail portion

(In million rupees)

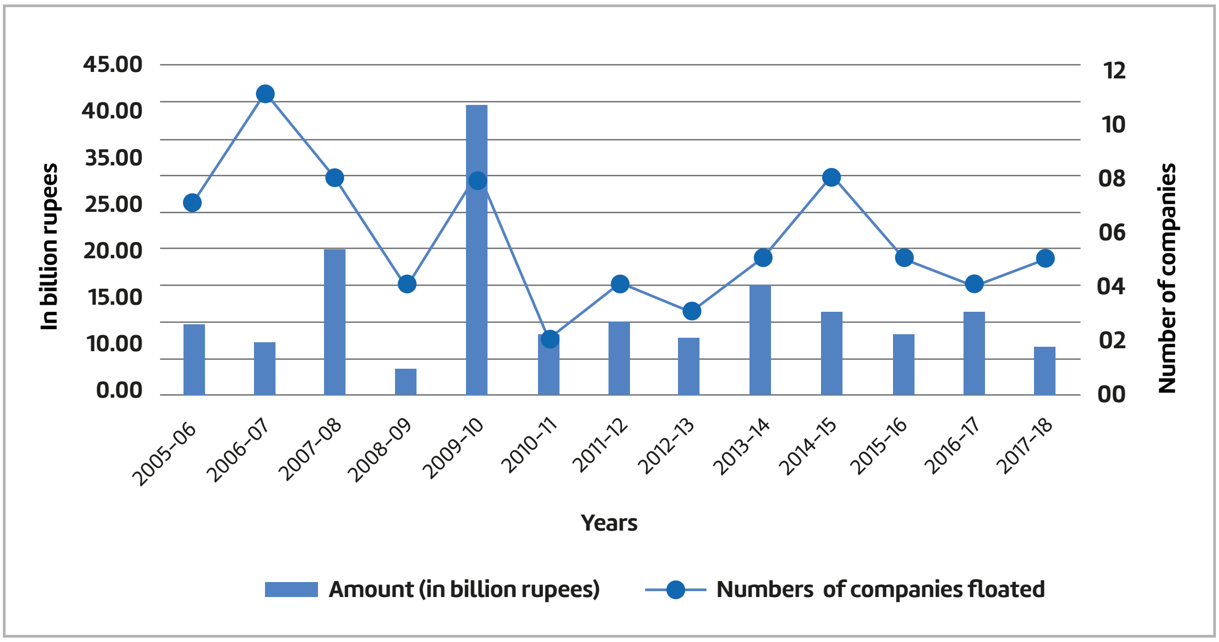
Sr. No.	Company name	Sector	Subscription date	Total paid-up capital	Already paid-up capital	Total offered capital	Offered capital through retail portion	Premium per share (rupees)	Offered capital (including premium, if any)	Subscription received (including premium)	Times subscribed
1	Habib Metro Modaraba	Modarabas	September 19-20, 2017	300	210	90	90	Nil	90	169.37	1.88
2	Orient Rental Modaraba	Modarabas	30-31 October 2017	750	350	400 including green shoe option of 250	400 including green shoe option of 250	Nil	400	559.7	1.39
3	Matco Foods Limited	Food and personal care products	January 29-30, 2018	1,165	874	291.43	72.86	16	189.436	78	0.410

4	AGP Limited (offer for Sale)	Pharma-ceuticals	February 15-16, 2018	2,800	2,800	350	87.5	70	700	784.16	1.12
5	At-Tahur Limited	Food and Personal Care Products	July 3-4, 2018	1,467	1,100	366.67	91.67	11	192.5	337.428	1.75
Total		–	–	**6,482**	**5,334**	**1,498**	**742.03**	–	**1,572**	**1,929**	–

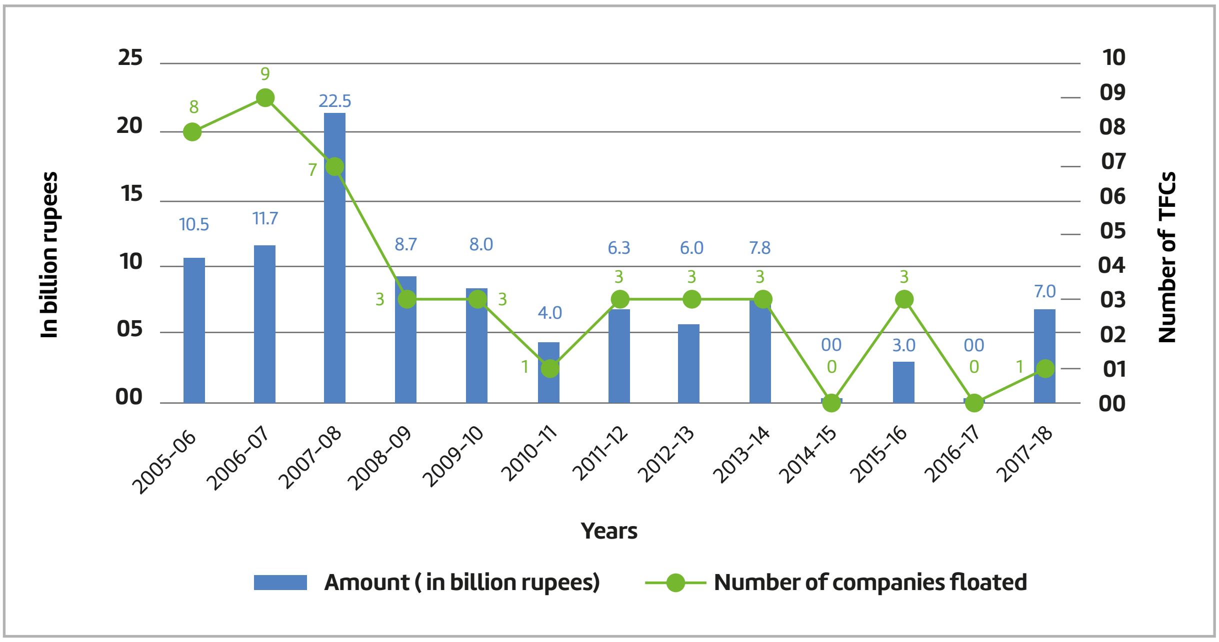
Table 8: Equity: book building portion

Sr. No.	Name of company	Bidding date	Total paid-up capital (in million rupees)	Already paid-up capital (in million rupees)	Floor price (rupees)	Number of shares offered (in million)	Number of shares bid for (in million)	Strike price per share (rupees)	Premium per share (rupees)	Offered capital (at strike price) (in million rupees)	Times subscribed
1	*Matco Foods Limited	January 23-24, 2018	1,165	874	26	*29.143	30.418	26	16	758	1.04
2	*AGP Limited (Offer for Sale)	February 7-8, 2018	2,800	2,800	80	*35	55.956	80	70	2,800	1.6
3	*At-Tahur Limited (Listing in process)	June 25-26, 2018	1,467	1,100	20	*36.67	55.158	21	11	770	1.50
Total		–	**5,432**	**4,774**	–	**100.8**	**141.5**	–	–	**4,328**	–

Number of equity issues to public during 2005/2006–2017/2018

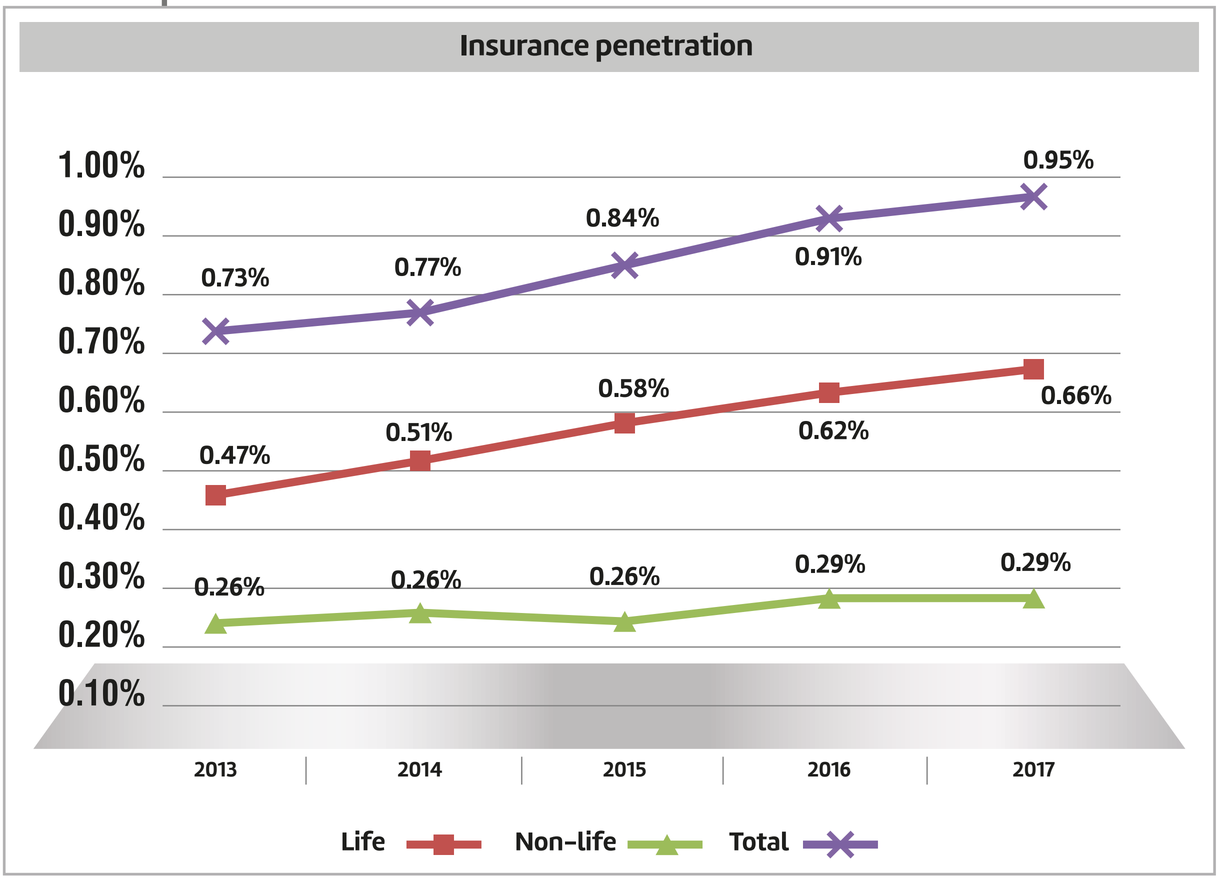


Number of listed TFCs floated – FY 2005-2018

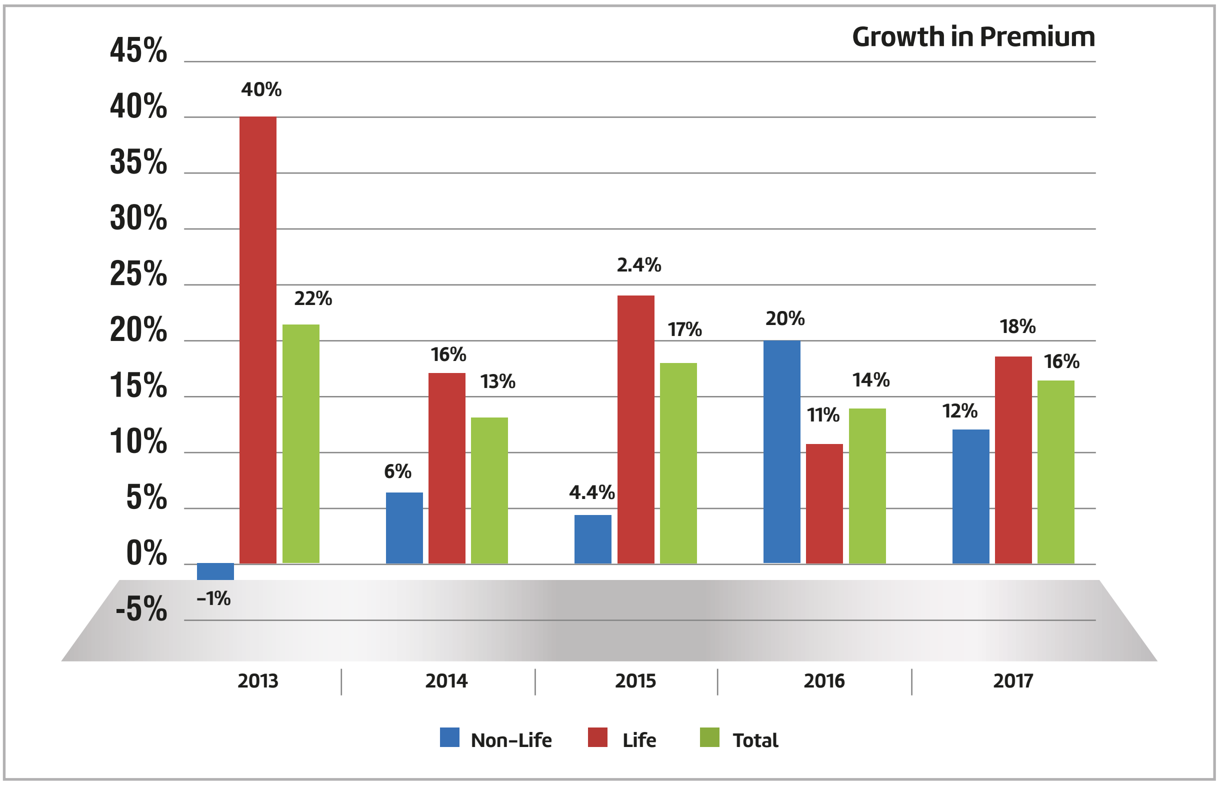


Insurance sector

Insurance penetration



Growth in insurance premium



NBFC Sector

Asset size of NBF Sector

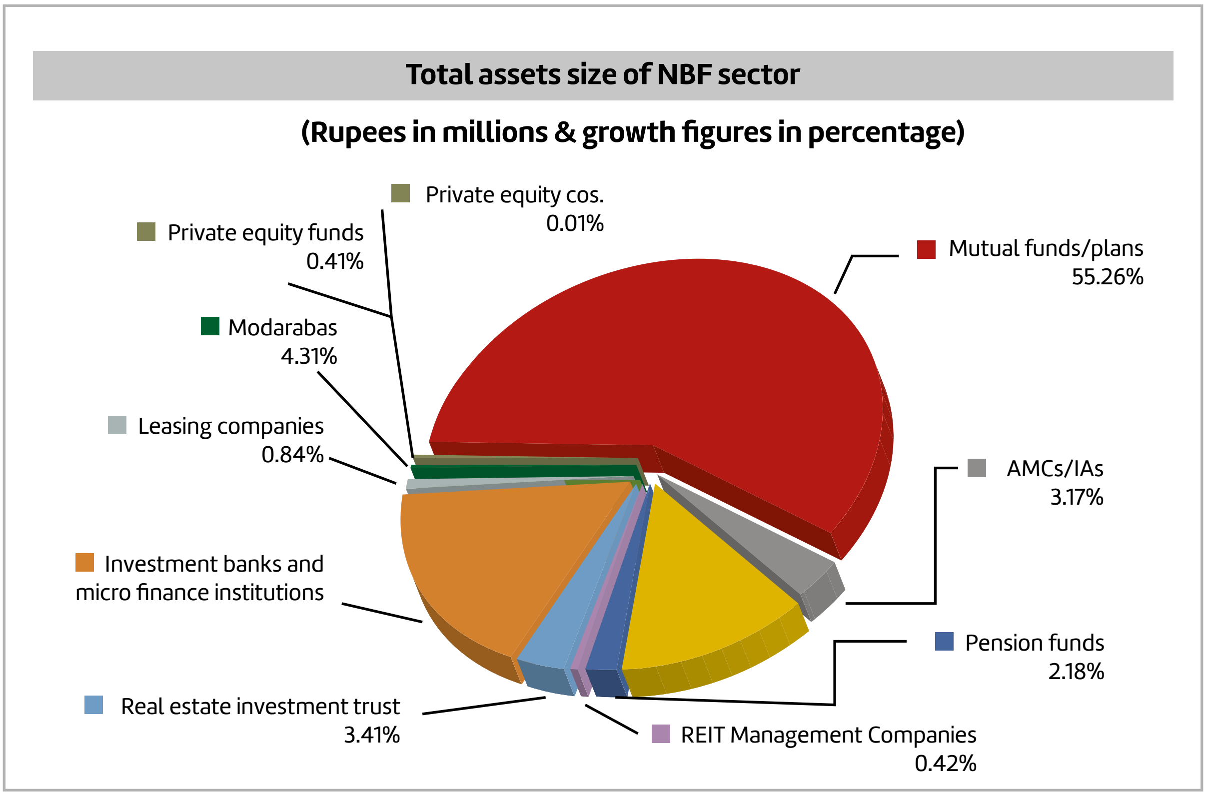


Table 9: Asset Size of NBF sector				
Sector	**Number of entities**	**Total assets (in million rupees)**	**As percentage of total assets**	**Total deposits (in million rupees)**
Mutual funds/plans	244	678,859.81	55.26%	
AMCs/IAs	21	38,998.00	3.17%	-
Discretionary/ non- discretionary portfolios	-	152,937.00	12.45%	-
Pension funds	19	26,828.01	2.18%	
REIT management companies	5	5,106.00	0.42%	-
Real estate investment trust (REIT Scheme)	1	41,840.00	3.41%	
Investment banks and micro finance institutions	35	215,480.42	17.54%	6,433.74
Leasing companies	7	10,359.00	0.84%	499.28
Modarabas	29	52,941.00	4.31%	9324.84
Private equity companies	2	172.00	0.01%	-
Private equity funds	2	4982.00	0.41%	-
Total	**365**	**1,228,503.24**	**100%**	**16,257.86**

Financial statements

KPMG Taseer Hadi & Co.
Chartered Accountants

Securities and Exchange Commission of Pakistan

Financial Statements
For the year ended 30 June 2018

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building, Blue Area
Islamabad, Pakistan
Telephone 92 (51) 282 3558, Fax 92 (51) 282 2671

Independent Auditors' Report

To the Federal Government of Pakistan

Opinion

We have audited the financials statements of the Securities and Exchange Commission of Pakistan ("the Commission"), which comprise the statement of financial position as at 30 June 2018, the statements of income and expenditure and comprehensive income, changes in funds and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at 30 June 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

KPMG

KPMG Taseer Hadi & Co.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

2

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants

Engagement Partner: Atif Zamurrad Malik

Islamabad
26 September 2018

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018	2017
		(Rupees in thousand)	
NON-CURRENT ASSETS			
Property and equipment	5	498,539	510,786
Intangible assets	6	5,184	6,008
Long term investments	7	-	-
Loans and advances	8	296,391	312,719
Deferred tax asset	14	17,638	-
		817,752	829,513
CURRENT ASSETS			
Advances, deposits, prepayments and other receivables	9	163,709	134,246
Short term investments	10	3,101,468	2,656,665
Cash and bank balances	11	234,114	72,729
		3,499,291	2,863,640
CURRENT LIABILITIES			
Accrued and other liabilities	12	(1,444,932)	(1,118,132)
Payable to Federal Consolidated Fund	13	(626)	-
		(1,445,558)	(1,118,132)
Net current assets		2,053,733	1,745,508
NON-CURRENT LIABILITIES			
Deferred tax liability		-	(413)
Provision for compensated absences	15	(162,025)	(166,968)
		(162,025)	(167,381)
Net assets		2,709,460	2,407,640
REPRESENTED BY:			
SECP Funds		2,709,460	2,407,640

CONTINGENCIES AND COMMITMENTS 16

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

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017
		(Rupees in thousand)	
INCOME			
Fees and other recoveries	17	3,232,915	2,810,693
Other income	18	209,453	238,253
		3,442,368	3,048,946
EXPENDITURE			
Salaries, allowances and other benefits	19	1,952,770	1,858,634
Operating expenses	20	558,687	485,806
Depreciation and amortization		123,235	137,773
		2,634,692	2,482,213
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		807,676	566,733
TAXATION	21	238,673	153,265
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX FOR THE YEAR		569,003	413,468
OTHER COMPREHENSIVE INCOME/(DEFICIT) - NET OF TAX			
Items which will be subsequently reclassified to profit or loss			
Surplus/ (deficit) on remeasurement of available for sale investments to fair value		(1,040)	931
Related tax effect		311	(280)
		(729)	651
Items which will not be subsequently reclassified to profit or loss			
Actuarial (losses)/ gains on staff retirement funds	12.1.4	(380,648)	2,474
Related tax effect		114,194	(767)
		(266,454)	1,707
Total other comprehensive income - net of tax		(267,183)	2,358
TOTAL COMPREHENSIVE SURPLUS OF INCOME OVER EXPENDITURE		301,820	415,826

The annexed notes 1 to 24 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Assets acquisition reserve	Reserve for loan to employees	Deficit on remeasurement of available for sale investments to fair value - net of tax	Accumulated comprehensive (deficit)/ surplus of income over expenditure	Total
	----------	----------	Rupees in thousand	----------	----------
Balance at 01 July 2016	1,571,736	420,000	78	-	1,991,814
Comprehensive income:					
Surplus of income over expenditure	-	-	-	413,468	413,468
Other comprehensive income	-	-	651	1,707	2,358
	-	-	651	415,175	415,826
Total comprehensive income	1,571,736	420,000	729	415,175	2,407,640
Transferred to reserve for loan to employees	-	100,000	-	(100,000)	-
Transferred to asset acquisition reserve	315,175	-	-	(315,175)	-
Balance at 30 June 2017	1,886,911	520,000	729	-	2,407,640
Comprehensive income:					
Surplus of income over expenditure	-	-	-	569,003	569,003
Other comprehensive surplus/(deficit) of income	-	-	(729)	(266,454)	(267,183)
	-	-	(729)	302,549	301,820
Total comprehensive income	-	-	(729)	302,549	301,820
Transferred to reserve for loan to employees	-	100,000	-	(100,000)	-
Transferred to asset acquisition reserve	202,549	-	-	(202,549)	-
Balance at 30 June 2018	2,089,460	620,000	-	-	2,709,460

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

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2018	2017
		(Rupees in thousand)	
Surplus of income over expenditure before tax		807,676	566,733
Adjustments for:			
- Depreciation and amortization		123,235	137,773
- Provision for pension		32,226	134,786
- Provision for gratuity		94,400	91,562
- Provision for compensated absences		3,281	18,729
- Discounting / (unwinding of) discount on long term loans to employees - net		63,940	(38,873)
- Interest income		(183,401)	(154,235)
- Gain on sale of property and equipment		(8,521)	(73,207)
		125,160	116,535
Operating income before working capital changes		932,836	683,268
Decrease / (increase) in advances, deposits, prepayments and other receivables		10,617	(48,368)
Increase in accrued and other liabilities and payable to Federal Consolidated Fund		45,249	64,606
		988,702	699,506
Contribution to pension fund		(126,773)	(36,173)
Contribution to gratuity fund		(98,323)	(108,979)
Compensated absences encashed		(8,224)	(9,047)
Payment to Federal Consolidated Fund		-	(57)
Taxes paid		(182,861)	(145,430)
		(416,181)	(299,686)
Increase in loans and advances		(47,612)	(87,456)
Net cash generated from operating activities		524,909	312,364
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(114,782)	(319,611)
Proceeds from sale of property and equipment		13,140	85,669
Investments - net		(425,258)	(260,784)
Interest received on investments and bank deposits		163,376	153,001
Net cash used in investing activities		(363,524)	(341,725)
Net increase / (decrease) in cash and cash equivalents		161,385	(29,361)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		72,729	102,090
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	234,114	72,729

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

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1 LEGAL STATUS AND OPERATIONS

Securities and Exchange Commission of Pakistan (the Commission) was established as a body corporate under the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) for the beneficial regulation of capital markets, superintendence and control of corporate entities and for matters connected therewith and incidental thereto. The Commission operates through Head office located in Islamabad, eight companies registration offices, two facilitation offices across Pakistan and southern regional office located in Karachi.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. Accounting and reporting standards comprise of International Financial Reporting Standards (IFRS Standards) issued by the International Accounting Standard Board (IASB) as are notified by the Commission to companies in Pakistan. The Commission is not required to comply with the requirements of IFRS Standards. However, to follow the best practices the Commission has adopted IFRS Standards as a frameworks for preparation of the financial statements.

3 BASIS OF PREPARATION

These financial statements have been prepared on the historical cost convention except for certain financial instruments which are measured at fair value and employee retirement benefit funds including staff compensated absences which are measured at their present values as determined under the provisions of IAS-19, "Employee Benefits".

3.1 Functional and presentation currency

These financial statements are presented in Pakistani Rupees, which is the Commission's functional and presentation currency. Amounts presented in Pakistani Rupees have been rounded off to nearest thousand, unless otherwise indicated.

3.2 Significant accounting estimates

The preparation of financial statements in conformity with International Financial Reporting Standards, requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised, if the revision effects only that period, or in the period of the revision and future periods if the revision effects both current and future periods.

Judgments made by management in the application of International Financial Reporting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent years are discussed in the ensuing paragraphs:

(a) Income taxes

The Commission takes into account the current income tax law and decisions taken by the appellate authorities. Instances where the Commission's view differs from the view taken by the income tax department at the assessment stage and where the Commission considers that its view on items is of material nature is in accordance with law, the amounts are shown as contingent liabilities.

(b) Staff retirement benefits

The present value of the obligation for gratuity, pension and compensated absences depends on a number of factors that are determined on actuarial basis using number of assumptions. The assumptions used in determining the charge for the year include the discount rate, expected increase in eligible salary and mortality rate. Any changes in these assumptions will impact the carrying amount of obligations for gratuity, pension and compensated absences.

(c) Property and equipment

The Commission reviews the useful life and residual values of property and equipment on regular basis. Further, the Commission reviews the value of the assets for possible impairment. Any change in the estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding affect on the depreciation charge and impairment.

(d) Provision against loans, advances and receivables

The Commission reviews the recoverability of its loan, advances and receivables to assess amount of bad debts and provision required there against, on a regular basis.

(e) Impairment

The carrying amounts of the Commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. Any change in the estimates in future years might affect the carrying amounts of the respective assets with a corresponding affect on the depreciation / amortization charge and impairment.

(f) Fair value of investments - available for sale

The fair value of available for sale investment is determined by reference to market interest rate at the reporting date. Any change in the estimate might effect carrying amount of investments available for sale with corresponding effect in SECP fund.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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FOR THE YEAR ENDED 30 JUNE 2018

3.3 New accounting standards and IFRIC interpretations that are not yet effective

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Commission's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Commission's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures') (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Commission's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. The amendments are not likely to have an impact on Commission's financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The Commission is currently assessing the impact of the IFRIC 22 on its financial statements, if any.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programs'. The Commission is currently in the process of analysing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Commission in the process of analysing the potential impact of changes required in classification and measurement of financial instruments and the impact of expected loss model on adoption of the standard.

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The amendments are not likely to have an impact on Commission's financial statements.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Commission's financial statements.

- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Commission's financial statements.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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- Amendment to IFRS 4 'Insurance Contracts'- Applying IFRS 9 'Financial Instruments' with IFRS 4 (effective for annual periods beginning on or after 1 July 2018). The amendment address issue arising from the different effective dates of IFRS 9 and the forthcoming new standard IFRS 17 'Insurance Contracts'. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 1 July 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. The application of amendments is not likely to have an impact on Commission's financial statement

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

  - IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangement' - the amendment aims to clarify the accounting treatment when a company increases its interest in a joint operation that meets the definition of a business. A company re-measures its previously held interest in a joint operation when it obtains control of the business. A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  - IAS 12 'Income Taxes' - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

  - IAS 23 'Borrowing Costs' - the amendment clarifies that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below. The policies have been applied consistently to all years presented.

4.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any, except for leasehold land and capital work in progress which are stated at cost less impairment, if any.

Depreciation is calculated on straight line method to write off the depreciable amount of each asset over its estimated useful life. Rates of depreciation are specified in note 5 to the financial statements. Depreciation on additions during the year is charged from the date of acquisition or the date the asset is available for use and on disposals up to the date of disposal.

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

4.2 Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment except for intangible assets under development which are stated at cost less impairment, if any. Amortization on intangible assets having finite useful life is calculated on straight-line basis at rates specified in note 6 to the financial statements.

4.3 Taxation

Current

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

Deferred

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

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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4.4 Employee benefits

Defined contribution plan

The Commission maintains an approved defined contributory provident fund for its employees eligible for this benefit plan as per policies of the Commission. The Commission's contribution to defined contributory Provident Fund @10% of basic salary is charged to the statement of comprehensive income for the year.

Defined benefit plans

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

(i) Funded Gratuity and Pension Scheme
Defined benefit funded gratuity and pension scheme for all eligible employees who complete qualifying period of service and age.

These funds are administrated by trustees. Annual contribution of the gratuity and pension funds are based on actuarial valuation using Projected Unit Credit Method, related details of which are given in Note 12 of financial statements.

Charge for the year is recognised in profit and loss account. Actuarial gain or losses arising on actuarial valuation are recorded directly in other comprehensive income.

Calculation of gratuity and pension requires assumptions to be made of future outcomes which mainly includes increase in remuneration, expected long term return on plan assets and the discount rates used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

(ii) ***Compensated absences***

The Commission recognizes provision for compensated absences payable to employees at the time of retirement/ termination of service.

The provision for compensated absences is determined on the basis of actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on 30 June 2018.

4.5 Deferred grant

Grants that compensates the Commission for expenses incurred are recognised in income and expenditure account as grant income on a systematic basis in the periods in which the related expenses are recognised. Grants related to assets are deducted from cost of related assets.

4.6 Revenue recognition

Fees and other recoveries are recognized on accrual basis.

All penalties/fines recovered are not credited to income of the Commission. Rather, these are credited to and deposited in the Federal Consolidated Fund.

Income on investments and bank deposits is recognized on time proportion basis using applicable rate of return.

4.7 Impairment

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

4.8 Investments

Available for sale

Available-for-sale investments are investments that are either designated in this category or not classified in any of the other categories. These are initially measured at their fair value plus directly attributable transaction cost and at subsequent reporting dates measured at fair values and gains or losses from changes in fair values other than impairment loss are recognized in other comprehensive income until disposal at which time these are recycled to the statement of comprehensive income. Impairment loss on investments is recognized in the statement of comprehensive income.

Investment in associate

These are accounted for using the equity method, whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Commission's share of the net assets of the associate. The statement of comprehensive income reflects the Commission's share of the results of the operations of the associate. Where there has been a change recognised in the other comprehensive income of the associate, the Commission recognizes its share of any change in its other comprehensive income.

The Commission determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Commission calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the same in the statement of comprehensive income.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4.9 Long term loans to employees

Long term loans are initially recognized at fair value. After initial recognition, these are subsequently measured at amortized cost using the Effective Interest Rate (EIR) method. Gains and losses recognised in profit and loss account when the assets are derecognised, as well through the EIR amortization process over the term of the loan. The EIR amortization is provision for discount on loans to employees in the profit and loss account.

4.10 Provisions

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

4.11 Financial instruments

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

4.12 Receivable

Receivable are stated initially at the fair value, subsequent to initial recognition these are stated at their fair value as reduced by appropriate provision for impairment. Known impaired receivable are written off, while receivables considered doubtful of recovery are fully provided for.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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4.13 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances.

4.14 Payables

These are initially recognized at the fair value. Subsequent to the initial recognition these are stated at their amortized cost.

4.15 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Commission has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

4.16 Measurement of fair values

A number of the Commission's accounting policies and disclosures require the measurement of fair value, both for financial and non-financial assets and liabilities.

The Commission has an established control framework with respect to the measurement of fair values. Management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of the approved accounting standards as applicable in Pakistan, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Commission uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Commission recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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FOR THE YEAR ENDED 30 JUNE 2018

5 PROPERTY AND EQUIPMENT

	Leasehold land	Building	Leasehold improvements	Office equipment	Other equipment	Computer	Furniture and fixture	Vehicles	Sub-total	Capital work-in-progress	Total
	-----------	-----------	-----------	-----------	-----------	Rupees in thousand	-----------	-----------	-----------	-----------	-----------
Cost											
Balance at 01 July 2016	2,053	39,428	118,141	88,785	17,966	383,903	52,377	324,241	1,026,894	2,095	1,028,989
Additions	211,790	-	3,270	8,487	146	58,433	2,582	30,948	315,656	947	316,603
Transfers	-	-	2,095	6,911	40	(6,951)	-	-	2,095	(2,095)	-
Disposals	(2,053)	-	(196)	(12,107)	-	(32,696)	(2,669)	(37,750)	(87,471)	-	(87,471)
Balance at 30 June 2017	211,790	39,428	123,310	92,076	18,152	402,689	52,290	317,439	1,257,174	947	1,258,121
Balance at 01 July 2017	211,790	39,428	123,310	92,076	18,152	402,689	52,290	317,439	1,257,174	947	1,258,121
Additions	-	-	2,251	5,676	-	1,129	1,953	102,003	113,012	-	113,012
Transfers	-	-	-	-	-	947	-	-	947	(947)	-
Disposals	-	-	-	(818)	-	(836)	-	(82,850)	(84,504)	-	(84,504)
Balance at 30 June 2018	211,790	39,428	125,561	96,934	18,152	403,929	54,243	336,592	1,286,629	-	1,286,629
Accumulated depreciation											
Balance at 01 July 2016	-	27,914	83,423	69,891	13,493	343,019	26,862	125,371	689,973	-	689,973
Charge for the year	639	1,972	12,796	10,532	2,077	36,772	4,023	63,559	132,370	-	132,370
Charge for the year on disposals	-	-	(199)	(6,438)	40	(38,049)	(2,519)	(27,843)	(75,008)	-	(75,008)
Balance at 30 June 2017	639	29,886	96,020	73,985	15,610	341,742	28,366	161,087	747,335	-	747,335
Balance at 01 July 2017	639	29,886	96,020	73,985	15,610	341,742	28,366	161,087	747,335	-	747,335
Charge for the year	2,139	1,971	10,326	11,351	1,120	27,074	4,929	61,730	120,640	-	120,640
Charge for the year on disposals	-	-	-	(818)	-	(836)	-	(78,231)	(79,885)	-	(79,885)
Balance at 30 June 2018	2,778	31,857	106,346	84,518	16,730	367,980	33,295	144,586	788,090	-	788,090
Carrying amounts - 30 June 2018	209,012	7,571	-	12,416	1,422	35,949	20,948	192,006	498,539	-	498,539
Carrying amounts - 30 June 2017	211,151	9,542	27,290	18,091	2,542	60,947	23,924	156,352	509,839	947	510,786
Rates of depreciation (per annum) / Useful life											
30 June 2018	99 years	5%	20%	30%	20%	20% / 25%/33%	10%	20%			
30 June 2017	99 years	5%	20%	30%	20%	20% / 25%	10%	20%			

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
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6 INTANGIBLE ASSETS

	Note	2018	2017
		(Rupees in thousand)	
Computer software's	6.1	**4,793**	6,008
Intangible asset under development	6.2	**391**	-
		5,184	6,008

6.1 Computer Software

	(Rupees in thousand)
Cost	
Balance at 01 July 2016	117,898
Additions	3,008
Balance at 30 June 2017	120,906
Balance at 01 July 2017	**120,906**
Additions	**1,380**
Balance at 30 June 2018	**122,286**
Accumulated amortization	
Balance at 01 July 2016	109,495
Amortization	5,403
Balance at 30 June 2017	114,898
Balance at 01 July 2017	**114,898**
Amortization	**2,595**
Balance at 30 June 2018	**117,493**
Carrying amounts - 2018	**4,793**
Carrying amounts - 2017	6,008
Amortization rate (%) per annum	25%

6.2 Intangible asset under development

	2018	2017
	(Rupees in thousand)	
Intangible asset under development	**391**	-

7 LONG TERM INVESTMENTS

	2018	2017
Investment in associate - Unquoted		
Institute of Financial Markets of Pakistan - note 7.1	**28,000**	28,000
Less: Impairment loss on investment	**(28,000)**	(28,000)
	-	-

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7.1 Investment in Institute of Financial Markets of Pakistan (Formally known as Pakistan Institute of Capital Markets)

This represents 73.68% (2017: 73.68%) investment in issued, subscribed and paid-up capital of Pakistan Institute of Capital Markets (the Institute) representing 5,600 (2017: 5,600) ordinary shares of Rs 5,000 (2017: 5,000) each. However, the Institute is an associate of the Commission since the Commission has no controlling power over the financial and operating policies of the Institute, as the Commission has no director as at 30 June 2018 (2017: Nil).
Further, the Commission has undertaken to contribute an amount not exceeding Rs. 50,000 (2017: 50,000) to the assets of the institute in the event of its being wound up.

7.1.1 The following table summarises the financial information of the Institute as included in its financial statements for the year ended 30 June 2018, which have been used for accounting under equity method. The table also reconciles the summarised financial information to the carrying amount of the Commission's interest in associate.

	2018	2017
	(Rupees in thousand)	
Percentage of shareholding	73.68%	73.68%
	Un Audited	Audited
Non current assets	1,773	307
Current assets (including cash and cash equivalents)	36,229	37,875
Total assets	38,002	38,182
Non-current liabilities	-	4,212
Current liabilities	2,772	485
Total liabilities	2,772	4,697
Net assets at fair value (100%)	35,230	33,485
Commissions share of net assets (73.68%)	25,958	24,672
Impairment loss on investment	(28,000)	(28,000)
Share in profits and assets not recognized	2,042	3,456
Carrying amount of interest in associate - note 7.1.2	-	-
Revenue	2,269	28,257
Profit from continuing operations (100%)	1,940	10,795
Other comprehensive income (100%)	195	(132)
Total comprehensive income (100%)	2,135	10,663
Commissions share of total comprehensive income - note 7.1.2	1,573	7,856

The information presented above for current year is based on unaudited financial statements of the Institute for the year ended 30 June 2018.

7.1.2 The carrying amount of interest in associate in the Commission's financial statements is Nil (2017: Nil). Share in profit of associate has not been recognized since the profits are not available for distribution. Further, on the basis of analysis of recoverable amount of the associate, the Commission recognized an impairment loss of Rs. 28,000 thousand in prior years.

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8	LOANS AND ADVANCES	Note	2018	2017
			(Rupees in thousand)	
	Advance for capital expenditures	8.1	**36,737**	47,390
	Loans and advances - considered good	8.2	**403,271**	345,815
	Less: Current portion of loans and advances		**(74,677)**	(75,486)
			365,331	317,719
	Less: Provision for imputed interest on loans and advances		**(68,940)**	(5,000)
			296,391	312,719

8.1 This includes an amount of Rs. 19,425 thousand (2017: 19,425 thousand) representing 5% bid money paid to Pakistan Railway for purchase of land.

8.2 These represent loans to employees for various purposes as per their employment terms, secured against employees' retirement benefits and other collaterals. Loan is recoverable in periods upto January 2030 in monthly installments. During the year ended these loan have been designated as interest free for employees for whom no interest is being accrued on there respective provident fund balances.

9	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	Note	2018	2017
			(Rupees in thousand)	
	Current portion of loans and advances - considered good		**74,677**	75,486
	Short term loans to employees - secured, considered good	9.1	**4,486**	4,925
	Advances		**8,429**	3,916
	Deposits		**3,140**	3,175
	Prepayments		**10,460**	7,625
	Advance tax - net	9.2	**40,080**	-
	Fee receivable - considered good		**7,213**	23,800
	Other receivables - considered good		**15,224**	15,319
			163,709	134,246

9.1 These represent the house rent advance loans given to employees and are recoverable/adjustable on monthly basis. The amount is secured against the employees' share of post employment benefits.

9.2	Advance income tax / income tax payable - net	2018	2017
		(Rupees in thousand)	
	Opening balance	**(250)**	3,462
	Tax charge for the year:		
	Income and expenditure account	**(256,725)**	(148,375)
	Other comprehensive income	**114,194**	(767)
		(142,531)	(149,142)
	Tax paid during the year	**182,861**	145,430
	Closing balance	**40,080**	(250)

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		2018	2017
10	**SHORT TERM INVESTMENTS**	(Rupees in thousand)	
	Available for sale		
	Government Treasury Bills (T-Bills) - note 10.1	-	100,717
	Special Notice Deposit Receipts (SNDR) - note 10.2	346,479	319,198
	Term Deposit Receipts (TDR) - note 10.3	2,754,989	2,236,750
		3,101,468	2,656,665

10.1 Investment in Treasury Bills ranges from three months to one year and carry a mark-up ranging from 5.99% to 6.72% (2017: 5.99%) per annum.

10.2 Investment in seven days "Special Notice Deposit Receipts (SNDR)" of National Bank of Pakistan carry rate of mark-up ranges from 5.50% to 5.95% per annum (2017: 5.60%).

10.3 Investment in "Term Deposit Receipts (TDR)" of National Bank of Pakistan carry rate of mark-up ranges from 5.80% to 6.20% per annum. (2017: 6.00% to 6.10% per annum)

		2018	2017
11	**CASH AND BANK BALANCES**	(Rupees in thousand)	
	Cash in hand	397	587
	Cash at bank - interest bearing accounts - note 11.1	233,717	72,142
		234,114	72,729

11.1 These carry mark-up rate of 3.75% to 4.75% (2017: 3.75% to 4.00%) per annum.

		2018	2017
12	**ACCRUED AND OTHER LIABILITIES**	(Rupees in thousand)	
	Accrued expenses	138,563	126,169
	Employees incentives payables	392,162	348,021
	Accounts payable	11,727	10,797
	Withholding tax payable	784	108
	Payable to staff retirement funds - note 12.1	507,327	225,150
	Unearned income - note 12.2	120,630	106,098
	Income tax payable - net	-	250
	Levies payable to Competition Commission of Pakistan	264,076	289,847
	Other liabilities	9,663	11,692
		1,444,932	1,118,132
12.1	**Payable to staff retirement funds**		
	Pension fund	445,413	126,668
	Gratuity fund	61,914	98,481
		507,327	225,149

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12.1.1 *The amount recognized in the statement of financial position is as follows:*

	Pension fund		Gratuity fund	
	2018	2017	**2018**	2017
	------ Rupees in thousand ------			
Present value of defined benefit obligation - note 12.1.5	**1,316,044**	880,579	**845,988**	792,561
Fair value of plan assets - note 12.1.6	**(870,631)**	(753,911)	**(784,074)**	(694,080)
	445,413	126,668	**61,914**	98,481

12.1.2 **Changes in net liability**

Opening liability	**126,668**	36,174	**98,481**	110,253
Amount charged to profit or loss	**32,226**	134,786	**94,400**	91,562
Premeasurements charged in other comprehensive income	**413,292**	(8,119)	**(32,644)**	5,645
Contribution	**(126,773)**	(36,173)	**(98,323)**	(108,979)
Closing liability	**445,413**	126,668	**61,914**	98,481

12.1.3 **The amount charged to Statement of Profit or Loss and Other Comprehensive Income**

Past service cost	-	113,363	-	-
Current service Cost	**26,362**	20,309	**89,625**	86,543
Interest cost on defined benefit obligation	**79,590**	63,029	**71,441**	59,234
Interest income on plan assets	**(73,726)**	(61,915)	**(66,666)**	(54,215)
	32,226	134,786	**94,400**	91,562

12.1.4 **The amount charged to Other Comprehensive Income**

Premeasurement (loss) / gain - Experience adjustment	**(367,811)**	(1,819)	**67,181**	(15,568)
(Loss) / gain on plan assets, excluding interest income	**(45,481)**	9,937	**(34,537)**	9,923
	(413,292)	8,118	**32,644**	(5,645)

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12.1.5 Changes in present value of defined benefit obligation

	Pension fund		Gratuity fund	
	2018	2017	**2018**	2017
	Rupees in thousand			
Opening balance	**880,579**	730,004	**792,561**	685,096
Current service cost	**26,362**	20,309	**89,625**	86,543
Interest cost	**79,590**	63,029	**71,441**	59,234
Past service cost	-	113,363	-	-
Benefits paid	**(40,298)**	(59,365)	**(40,458)**	(53,880)
Amount received from Government of Pakistan	**2,000**	11,420	-	-
Actuarial loss / (gain)	**367,811**	1,819	**(67,181)**	15,568
Closing balance	**1,316,044**	880,579	**845,988**	792,561

12.1.6 Changes in fair value of plan assets

	Pension fund		Gratuity fund	
	2018	2017	**2018**	2017
Opening balance	**753,911**	693,830	**694,080**	574,843
Interest income on plan assets	**73,726**	61,915	**66,666**	54,215
Contributions	**126,773**	36,173	**98,323**	108,979
Benefits paid	**(40,298)**	(59,365)	**(40,458)**	(53,880)
Amount received from Government of Pakistan	**2,000**	11,420	-	-
Return on plan assets, excluding interest income	**(45,481)**	9,938	**(34,537)**	9,923
Closing balance	**870,631**	753,911	**784,074**	694,080

The expected charge for next year on account of defined benefit pension and gratuity amounts to Rs. 82,545 thousand (2017: 38,079) thousand) and Rs. 96,435 thousand (2017: Rs. 96,581 thousand) respectively.

	Pension fund		Gratuity fund	
	2018	2017	**2018**	2017
	Rupees in thousand			
Actual return on plan assets	**119,207**	71,853	**101,203**	64,139

12.1.7 Break-up of category of assets

	Pension fund		Gratuity fund	
	2018	2017	**2018**	2017
	Rupees in thousand			
National Savings Certificates	-	-	**774,058**	-
Special Notice Deposit Receipts (SNDR) - National Bank of Pakistan	-	-	**5,163**	-
Special Savings Certificates	**866,960**	743,364	-	676,316
Term Deposit Certificates	-	-	-	10,314
Bank accounts	**3,671**	10,547	**4,853**	7,449
Fair value of plan assets	**870,631**	753,911	**784,074**	694,079

Funds covered were invested within limits specified by regulations governing investment of approved retirement funds in Pakistan.

The pension plan is a defined benefits plan invested through approved trust fund. The trustees of the fund are responsible for plan administration and investment. The Commission appoints the trustees. All trustees are employees of the company.

The plan exposes the Company to various actuarial risks: investment risk, salary risk and longevity risk from the pension and gratuity plan.

12.1.8 Principal actuarial assumptions

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at 30 June 2018 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2018	2017	**2018**	2017
Valuation discount rate - per annum	**10%**	9.25%	**10%**	9.25%
Salary increase rate - per annum at cost	**9.25%**	9.25%	**9.25%**	9.25%
Withdrawal rates	Low	Low	Low	Low

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12.1.9 Sensitivity analysis

Reasonably possible change at reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by amounts shown below:

	Pension fund		Gratuity fund	
	------ Defined benefit obligation ------			
	Increase	Decrease	Increase	Decrease
	------ Rupees in thousand ------			
Discount rate (1% movement)	1,194,414	1,509,777	785,561	939,636
Future salary growth (1% movement)	1,409,821	1,269,854	941,053	780,675

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximate of the sensitivity of the assumptions shown.

12.1.10 Disclosure for current and previous four annual periods for pension and gratuity plans

	2018	2017	2016	2015	2014
		------ Rupees in thousand ------			
Present value of the defined benefit obligations	**2,162,032**	1,673,140	1,415,100	1,235,294	885,641
Fair value of plan assets	**(1,654,705)**	(1,447,991)	(1,268,673)	(997,824)	(869,258)
Deficit in the plans	**507,327**	225,149	146,427	237,470	16,383
Experience adjustments on plan liabilities	**300,630**	17,387	(15,987)	220,456	(59,957)
Return on plan assets, excluding interest income	**(80,018)**	19,861	(12,775)	(16,134)	(1,126)

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12.1.11 Projected benefit payments form funds are as follows:

	Pension	Gratuity
	Rupees in thousand	
Year 1	28,595	62,313
Year 2	29,664	67,428
Year 3	30,739	84,164
Year 4	31,813	69,944
Year 5	32,879	84,429
Year 6 to Year 10	179,399	595,105
Year 11 and above	11,672,220	4,502,903

12.2 Unearned income

This represents amount received in advance from companies for various transactions under the Companies Ordinance,1984 and NBFC and Notified Entities Regulations, 2008.

13 PAYABLE TO FEDERAL CONSOLIDATED FUND	2018	2017
	(Rupees in thousand)	
Balance at the beginning of the year	-	57
Penalties collected during the year - note 13.1	35,573	18,731
Penalties deposited to the Fund during the year	(34,947)	(18,788)
Balance at the end of the year	626	-

13.1 Penalties collected during the year

	2018	2017
Company Law Division	18,809	12,149
Insurance Division	3,290	1,071
Securities Market Division	13,074	4,831
Specialized Companies Division	400	680
	35,573	18,731

13.2 In terms of an amendment to the SECP Act, 1997 through Finance Act, 2012, effective 01 July 2012, all penalties/ fines recovered are not credited to income of the Commission, rather, they are credited to and deposited in the Federal Consolidated Fund.

As per SECP Act 1997 (amendment through SECP Amendment Act, 2016) "any surplus of receipts over the actual expenditure including budgeted expenditures in a year shall be remitted to the Federal Consolidated Fund and any deficit from the actual expenditure shall be made up by the Federal Government." The amount payable to the Fund based on audited results is detailed below:

	2018	2017
	(Rupees in thousand)	
Accumulated surplus transferred to the Fund	302,549	415,175
Less: Transfer to reserve for loan to employees	(100,000)	(100,000)
Less: Amount retained for capital expenditures as per approved budget	(202,549)	(315,175)
	-	-
Payable to the Fund	-	-

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The Commission has transferred Rs. 100 million and Rs. 202 million from the accumulated surplus to reserve for loan to employees and asset acquisition reserve respectively (2017: Rs. 100 million and Rs. 315 million respectively). The Commission believes that loans to employees are eligible deduction under the Act. Further, the assets acquisition reserve of Rs. 2.08 billion as at the reporting date is in line with the future capital expenditure including the proposed building, to which the reserve relates to.

14 DEFERRED TAXATION

	2018	2017
	(Rupees in thousand)	
The net balance of deferred taxation is in respect of the following temporary differences:		
- Accelerated depreciation and amortization	21,465	17,355
- Profit on short term investments accrued but not due	(32,251)	(27,355)
- Discount on long term loan	19,993	1,500
- Impairment loss on investment in associate	8,120	8,400
- Remeasurement of investment available for sale	311	(313)
	17,638	(413)

15 PROVISION FOR COMPENSATED ABSENCES

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

	2018	2017
	(Rupees in thousand)	
Obligation at beginning of the year	166,968	157,286
Expense for the year	3,281	18,729
Encashed during the year	(8,224)	(9,047)
Obligation at end of the year	162,025	166,968

Principal actuarial assumptions

Latest actuarial valuation was carried out as at 30 June 2018 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2018	2017
Valuation discount rate - per annum	10.00%	10.50%
Salary increase rate - per annum	10.00%	10.50%

16 CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

(i) Certain companies / individuals filed suits against the Commission in respect of claims aggregating to Rs. 2,018 million (2017: 2,091 million) for damages. Based on legal advise, the Commission is confident of a favorable outcome of these cases and that there will be no financial impact of these cases.

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(ii) The Commission has been made party in various other legal cases. The Commission believes that the outcome of these cases would not result in any financial exposure to the Commission.

16.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 376 million. (2017: Rs. 392 million).

		2018	2017
17	**FEES AND OTHER RECOVERIES**	(Rupees in thousand)	
	Fees and other recoveries - note 17.1	3,332,902	2,897,622
	less: Competition Commission of Pakistan levy	(99,987)	(86,929)
		3,232,915	2,810,693
17.1	Under the Companies Act, 2017 / related fees	2,048,912	1,782,832
	Under the Modaraba Ordinance, 1980	31,197	14,984
	Under the Insurance Ordinance, 2000	368,110	335,797
	On transactions executed at stock exchanges and other fees	232,986	240,291
	Brokers' registration	10,870	20,655
	Non Banking Finance Companies	640,827	503,063
		3,332,902	2,897,622
18	**OTHER INCOME**		
	Income on bank deposits	6,710	5,163
	Income on investments	176,692	149,072
	Gain on sale of property and equipment	8,521	73,207
	Miscellaneous income	17,530	10,811
		209,453	238,253
19	**SALARIES, ALLOWANCES AND OTHER BENEFITS**		
	Salaries	642,879	571,582
	House rent allowance	383,648	338,996
	Medical allowance	96,727	83,231
	Conveyance allowance	19,167	14,039
	Utilities	63,936	56,481
	Other allowance	559,795	499,464
	Provision for pension	32,226	134,786
	Provident fund contribution	56,711	49,764
	Provision for gratuity	94,400	91,562
	Provision for compensated absences	3,281	18,729
		1,952,770	1,858,634

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		2018	2017
20	**OPERATING EXPENSES**	(Rupees in thousand)	
	Repair and maintenance	**59,236**	59,206
	Support Staff cost	**70,398**	60,396
	Travelling and conveyance	**54,459**	36,719
	Telephone, postage and courier	**30,252**	25,009
	Utilities	**16,040**	24,794
	Rent and rates	**154,675**	145,951
	Printing and stationery	**15,248**	14,712
	Legal and professional charges	**17,260**	25,236
	Fees and subscription	**10,092**	9,552
	Human resource development	**11,811**	3,654
	Insurance	**11,823**	12,598
	Advertisement	**7,250**	11,478
	Entertainment	**403**	430
	Audit fee - note 20.1	**435**	435
	Provision for discount on loans to employees	**63,940**	-
	Others	**35,365**	55,636
		558,687	485,806
20.1	**Audit fee**		
	Statutory audit fee	**345**	345
	Out of pocket expenses	**90**	90
		435	435
21	**TAXATION**		
	Current tax		
	- current year	**258,382**	146,588
	- prior years	**(1,657)**	1,787
		256,725	148,375
	Deferred tax	**(18,052)**	4,890
		238,673	153,265

21.1 The relationship between the tax expense and surplus of income over expenditure is as follows:

	2018	2017
	(Rupees in thousand)	
Surplus of income over expenditure	**807,676**	566,733
Tax at applicable tax rate of 30% (2017: 31%)	**242,303**	175,687
Effect of prior years charge	**(1,657)**	1,787
Others including permanent differences	**(1,973)**	(24,209)
Tax expense for the year	**238,673**	153,265

22 TAX STATUS

(i) The Securities and Exchange Commission of Pakistan [the "Commission"] has filed the tax returns for the Tax Years 2003 to 2007 in pursuance of the order of the Honourable Federal High Court, by claiming exemption on total income in terms of section 49 of the Income Tax Ordinance, 2001 [the "Ordinance"]. However the Additional Commissioner of Income Tax, Audit Division [the "ACIT"] amended the assessments of the Commission under section 122(5A) of the Ordinance by rejecting the claim of exemption and thereby creating tax demand aggregating to Rs. 892.60 million. The Appellate Tribunal Inland Revenue [the "ATIR"] had upheld the annulment of order of ACIT for Tax Year 2003 and maintained the order for the Tax Years 2004 to 2007, while disposing of the appeals filed by the Commission against the order of the Commissioner Appeals [the "CIR(A)"]. The Commission filed the reference applications before the Honourable Islamabad High Court (IHC), who held that the amendments brought in section 49 of the Ordinance through the Finance Act, 2007, are not applicable retrospectively. As a result of this, payment of tax demands previously made by the Commission under protest, stands refundable. The income tax department has filed an appeal in the Honorable Supreme Court of Pakistan against the order of the Honorable High Court of Islamabad.

(ii) The Officer Inland Revenue [the "OIR"] charged default surcharge aggregating to Rs. 111.90 million for delay in payment of the tax demands for the Tax Years 2004 to 2007. While disposing off the appeals filed by the Commission, the CIR (A) has upheld the charge of additional tax and directed the OIR to re-compute the amount of default surcharge after taking cognizance of the tax refunds available with the Commission for the Tax Years 2008 and 2009. During the reassessment proceedings, the OIR followed the same procedure to work out the default surcharge which action was rejected by the CIR(A) with the directions to follow the instructions earlier given by the CIR(A). The Commission has contested the order of CIR(A) to uphold the charge of default surcharge before the ATIR. The ATIR also upheld the order of the CIR(A) for charge of default surcharge, however the ATIR ordered for deletion of the default surcharge for the period for which the stay granted by the Honourable Islamabad High Court through order dated 19 February 2009 was in force. However, since, in view of the order of the IHC, the tax demands for the Tax Years 2004 to 2007 stood vitiated, therefore, consequent charge of default surcharge is also liable to be deleted.

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(iii) The tax authority has amended the assessment of the Commission for the Tax Year 2008, thereby, disallowing the excessive tax depreciation of Rs. 24.47 million allegedly claimed by the Commission. The CIR(A) has set-aside the amended assessment order on appeal filed by the Commission. Against the appellate order of the CIR(A), the Commission has filed an appeal before the ATIR, which is subjudice till to-date.

(iv) The Commission has filed the return for the Tax Years 2008 to 2017, which stood assessed in terms of Section 120 of the Ordinance. The Commissioner Inland Revenue [the "CIR"] selected the Commission for audit relating to the Tax Year 2010. However, the Commission has challenged its selection for audit by CIR in the Honourable Islamabad High Court. The writ petition of the Commission was rejected by the IHC. Against this rejection, the Commission has filed an Intra Court appeal to the Division Bench of the IHC, thereby addressing certain issues. Being not satisfied with the order of the IHC, the Commission as well as the Tax Department, have filed appeal before the Honourable Supreme Court of Pakistan.

(v) Consequent to reassessment proceedings for the Tax Year 2013, the tax authority amended the assessment of the Commission thereby making certain disallowances and curtailing income tax refund by Rs. 31,939,949. Being aggrieved with the amended assessment order, the Commission preferred an appeal before the CIR(A), who has set-aside the amended assessment order and has remanded back the case to the tax authority. Being not satisfied with the order of the CIR(A), the Commission has filed appeal before the ATIR, which is pending disposal till to-date.

(vi) The tax authority has issued Notice to the Commission for ascertaining compliance with the income tax withholding obligations. The management of the Company has filed the relevant information with the tax authority and the proceedings are underway.

The management expects favorable outcome of the appeals and therefore no provision against these cases has been recognized on these matters in these financial statements.

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23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Commission has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

Commission has overall responsibility for the establishment and oversight of the Commission's risk management framework. The Commission is responsible for developing and monitoring the Commission's risk management policies.

The Commission's risk management policies are established to identify and analyze the risks faced by the Commission, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Commission's activities. The Commission, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Commission's risk management policies, procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Commission. Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

23.1 Credit risk

Credit risk is the risk of financial loss to the Commission if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk the Commission has placed funds in government securities and financial institutions with high credit worthiness and assesses the credit quality of the counter parties as satisfactory. The Commission does not hold any collateral as security against any of its financial assets. The Commission believes that it is not exposed to major concentration of credit risk.

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the statement of financial position date was:

	2018	2017
	(Rupees in thousand)	
Loans and advances	**403,271**	345,815
Advances, deposits and other receivables	**22,850**	42,294
Short term investments	**3,101,468**	2,656,665
Cash at banks	**233,717**	72,142
	3,761,306	3,116,916

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Geographically there is no concentration of credit risk. As at the year end, the Commission's most significant receivables represents investment in Government Treasury Bills and Special Notice Deposit Receipts with banks of aggregate amount of Rs. 2,990 million (excluding markup). The management believes that no impairment allowance is necessary in respect of the Commission's financial assets as the most significant financial assets represent investment and bank balances which are with banks and institutions of high credit ratings.

Balances with banks

The Commission held balances of Rs. 233 million with banks at 30 June 2018 (2017: Rs. 72 million) and term deposits amounting to Rs. 3.1 billion as at 30 June 2018 (2017: 2.5 billion). Management assesses the credit quality of the counter parties as satisfactory. Geographic analysis and credit rating information is given below:

Banks	Credit rating agency	Long term Credit rating	Short term Credit rating	2018 (Rupees '000)	2017 (Rupees '000)
MCB Bank Limited	PACRA	AAA	A1+	**230,188**	69,757
United Bank Limited	JCR-VIS	AAA	A-1+	**3,529**	2,385
National Bank of Pakistan	PACRA	AAA	A1+	**3,101,467**	2,555,948

23.2 Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Commission's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Commission's reputation.

The maturity profile of the Commission's financial liabilities based on the contractual amounts is as follows:

	Carrying amounts	Contractual cash flows	Maturity up to one year
	2018 (Rs.'000)	**2018 (Rs.'000)**	**2018 (Rs.'000)**
Accrued and other liabilities	**552,115**	**552,115**	**552,115**
	552,115	**552,115**	**552,115**
	2017 (Rs.'000)	2017 (Rs.'000)	2017 (Rs.'000)
Accrued and other liabilities	496,678	496,678	496,678
	496,678	496,678	496,678

23.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Commission's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(a) Interest rate risk management

The interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate exposure arises from short term investment, and balances in deposit and saving accounts. At the balance sheet date the interest rate risk profile of the Commission's interest bearing financial instruments are as follows:

	Carrying amounts	
	2018	2017
	(Rs. '000)	(Rs. '000)
(i) Fixed rate instruments		
Cash at bank	**233,717**	72,142
Short term investment	**3,101,468**	2,656,665
	3,335,185	2,728,807

(ii) Fair value sensitivity analysis for fixed rate instruments

The Commission does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not effect profit or loss.

(b) Currency risk management

(i) Exposure to currency risk

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

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23.4 Fair value of financial assets and financial liabilities

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information of financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair Value		
	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3
30 June 2018	Rupees in thousand				Rupees in thousand		
Financial assets measured at fair value							
Short-term investments	-	3,101,468	-	3,101,468		3,101,468	
	-	3,101,468	-	3,101,468			
Financial assets not measured at fair value							
Loans and advances	403,271	-	-	403,271			
Advances, deposits and other receivables	22,850	-	-	22,850			
Cash and bank balances	233,717	-	-	233,717			
	659,838	-	-	659,838			
Financial liabilities measured at fair value	-	-	-	-			
Financial liabilities not measured at fair value							
Accrued and other liabilities	-	-	(552,115)	(552,115)			
	-	-	(552,115)	(552,115)			

	Carrying amount				Fair Value		
	Loans and receivables	Available for sale financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3
30 June 2017	Rupees in thousand				Rupees in thousand		
Financial assets measured at fair value							
Short-term investments	-	2,656,665	-	2,656,665		2,656,665	
	-	2,656,665	-	2,656,665			
Financial assets not measured at fair value							
Loans and advances	340,815	-	-	340,815			
Advances, deposits and other receivables	42,294	-	-	42,294			
Cash and bank balances	72,729	-	-	72,729			
	455,838	-	-	455,838			
Financial liabilities measured at fair value	-	-	-	-			
Financial liabilities not measured at fair value							
Accrued and other liabilities	-	-	(496,678)	(496,678)			
	-	-	(496,678)	(496,678)			

Fair value hierarchy

The table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfer between levels of the fair value hierarchy are recognized at the end of the reporting period during which the changes has occurred

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24 CAPITAL RISK MANAGEMENT

The Policy Board of the Commission monitors the Commission's performance along with funds required for sustainable operations of the Commission. There were no changes to the Commission's approach to the fund management during the year. The Commission is not subject to externally imposed fund requirements.

25 RELATED PARTY TRANSACTIONS

The Commission deals with several state-controlled entities, directly or indirectly controlled by the Government of Pakistan through its Government authorities, agencies, affiliates and other organizations. Transactions with these state-controlled entities are not very significant.

In addition to above, Pakistan Institute of Capital Markets, Pakistan Institute of Corporate Governance, key management personnel and employee benefit plans are related parties of the Commission.

Transactions with related parties during the year and balances outstanding at the year end are as follows:

Transactions and balances with key management personnel's

(i) Loans

During the year, secured loans advanced to Commissioners were Rs. 3,900 thousand (2017: Rs. 11,750 thousand). No interest is payable on these loans and these loans are repayable in upto 24 months after issue date. At 30 June 2018, outstanding balance against loans advanced to the Commissioners was Rs. 3,399 thousand (2017: Rs. 5,175 thousand) included in loan and advances.

(ii) Key management personnel compensation

Key management personnel compensation comprised of the following;

	2018	2017
	(Rupees in thousand)	
Short term employee benefits	**108,759**	123,242
Post-employment benefit	**7,199**	8,827

Compensation of the Commission's key management personnel include salaries and contribution to post employment defined benefit plan.

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	2018	2017
	(Rupees in thousand)	
Other related party transactions		
Contributions made to employees funds'	**225,097**	145,152
Contribution to Pakistan Institute of Corporate Governance	**100**	100
Payment to Federal Board of Revenue against taxes	**182,861**	145,645
Purchase of land	-	211,790
Disposal of land	-	2,053
Balances outstanding at the year end		
Due to employees benefit plans	**507,326**	225,149
Investments in the Pakistan Institute of Capital Markets - at cost	**28,000**	28,000
Payable to Federal Consolidated Fund	**626**	-
Payable to Competition Commission of Pakistan	**264,076**	289,847
Short term investments in treasury bills and banks	**3,101,467**	2,656,665

26 **AUTHORIZATION FOR ISSUE**

These financial statements have been authorized for issue by the Commission on 25 SEP 2018

Chairman

COMMISSIONER

How to contact us

The SECP has placed instructions on filing of a complaint on its website. The information and forms have also been made available at the CROs and the Pakistan Stock Exchange. A service desk provides the very contact window to the general public, investors and regulated entities for filing complaints, asking pertinent questions and requesting important information.

For investor education please click on the following link: **www.jamapunji.pk**

For enquiries dial our toll-free number: 0800 88008 or Lodge your complaint through our Service Desk Management System at **http://sdms.secp.gov.pk** or

Write to us at **queries@secp.gov.pk** | Complaints: **complaints@secp.gov.pk**

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Abbreviations

ABS	Asset Backed Securitization	**EMMOU**	Enhanced Multilateral Memorandum Of Understanding
AC	Assessment Committee	**KYC**	Know Your Customer
AUC	Assets Under Custody	**MFIs**	Microfinance Institutions
AMCs	Asset Management Companies	**MMCs**	Modaraba Management Companies
AML	Anti-Money Laundering	**MMOU**	Multilateral Memorandum Of Understanding
APRC	Asia Pacific Regional Committee	**MoU**	Memorandum Of Understanding
ARN	Adjudication Recommendation Note	**MSCI**	Morgan Stanley Capital International
AUMs	Assets Under Management	**MSS**	Market Surveillance Suite
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions	**MSCD**	Market Supervision and Compliance Department
ASOs	Authorized Surveying Officers	**MUFAP**	Mutual Fund Association of Pakistan
BPA	Bond Pricing Agency	**MDI**	Management Development Institute, Pakistan
BO	Beneficial Owners	**MTS**	Margin Trading System
BAFL	Bank Alfalah Limited	**NAB**	National Accountability Bureau
BMC	Base Minimum Capital	**NBFCs**	Non-Banking Financial Companies
BOI	Board of Investment	**NCSS**	National Clearing and Settlement System
CAA	Civil Aviation Authority	**NIC**	National Incubation Centre
CDS	Central Depository System	**NDM**	Negotiated Deal Market
CDMRS	Corporate Debt Market Reporting System	**NBMFC**	Non-Bank Microfinance Companies

CGT	Capital Gains Tax	**NEs**	Notified Entities
CDD	Customer Due Diligence	**NCCPL**	National Clearing Company Of Pakistan Limited
CFT	Counter Financing Terrorism	**NFIS**	National Financial Inclusion Strategy
CRA	Corporate Rehabilitation Act	**ORIC**	Office of Research and Incubation Centre
CRO	Company Registration Office	**PMN**	Pakistan Microfinance Network
CES	Centralized e-IPO System	**PMNIC**	Pakistan Microfinance Investment Company
CKO	Centralized KYC Organization	**PPDS**	Privately Placed Debt Securities
DSTs	Debt Securities Trustees	**QAB**	Quality Assurance Board
DPS	Direct Payment System	**ROSC**	Report on Observance of Standards and Codes
DFM	Deliverable Futures Market	**SASRF**	South Asian Securities Regulators' Forum
ESOS	Employees Stock Option Schemes	**SAOF**	Sub-Account Opening Form
ETFs	Exchange Trade Funds	**SBP**	State Bank of Pakistan
FMD	Financial Market Development	**SDRCs**	Small Dispute Resolution Committees
FCR	Financial Condition Report	**SCRS**	Specialized Companies Returns System
GDS	Government Debt Securities	**SDMS**	Service Desk Management System
GEM	Growth and Emerging Markets	**SLB**	Securities Lending and Borrowing
HEC	Higher Education Commission	**SMEs**	Small and Medium Enterprises
IACD	Internal Audit and Compliance Department	**SMBL**	Summit Bank Limited
IBAN	International Banking Account Number	**SMEDA**	Small and Medium Enterprise Development Authority
ICP	IAIS Core Principles	**SROs**	Self-Regulatory Organizations
IFIs	Islamic Financial Institutions	**SRD**	Systemic Risk Department
IFA	IPO Facilitation Account	**REITs**	Real Estate Investment Trusts
IFD	Islamic Finance Department	**RT**	Review Team
IFSB	Islamic Financial Services Board	**TCI**	Technical Committee on Insurance
IAIS	International Association of Insurance Supervisors	**UNCAC**	United Nations Convention Against Corruption
IOSCO	International Organization of Securities Commissions	**UBL**	United Bank Limited
ISIM	IOSCO Standards Implementation Monitoring Program	**UIN**	Universal Identity Number
ICRS	Insurance Companies Returns Systems	**VPF**	Voluntary Pension Fund
IMF	International Monetary Fund	**FSAP**	Financial Sector Assessment Program
IPO	Initial Public Offering	**FATF**	Financial Action Task Force
PICG	Pakistan Institute of Corporate Governance	**APG**	Asia Pacific Group
PMEX	Pakistan Merchantile Exchange	**FMU**	Financial Monitoring Unit

Declaration of investment

Disclosure of investment by Commissioners of the Securities and Exchange Commission of Pakistan in pursuance of sub-section (6) of section 16 of the SECP of Pakistan Act, 1997. These disclosures were made on June 30, 2018.

Mr. Shaukat Hussain

Sr. No	Names of companies	Nature of interest	Number of units/shares
1	Pak Qatar Family Takaful	Takaful Khazeena (Balance Fund)	396.40625
2	Pak Qatar Family Takaful	Takaful Khazeena (Aggressive Fund)	391.68125
3	Al Meezan Investment Management Ltd.	MTPF DEBT SUB FUND	145
4	Al Meezan Investment Management Ltd.	MTPF MONEY MARKET SUB FUND	146
5	J S Investments	JSIPSF-ESF	4,402.81
6	JS Investments	JSIPSF-DSF	24,841.02
7	JS Investments	JSIPSF-MSF	11,473.46

Mr. Akif Saeed

Sr. No	Names of companies	Nature of interest	Number of units/shares
1	Tri-Pack Films Limited	Shares	646
2	JS Growth Fun	Units	681
3	Ibrahim Fiber Limited	Shares	3000
4	Oil & Gas Development Co. Limited	Shares	1000
5	Sui Southern Gas Co. Limited	Shares	1312
6	Chenab Limited	Shares	500
7	Dewan Farooque Spinning	Shares	500

Mr. Muhammad Zafar-ul-Haq Hijazi

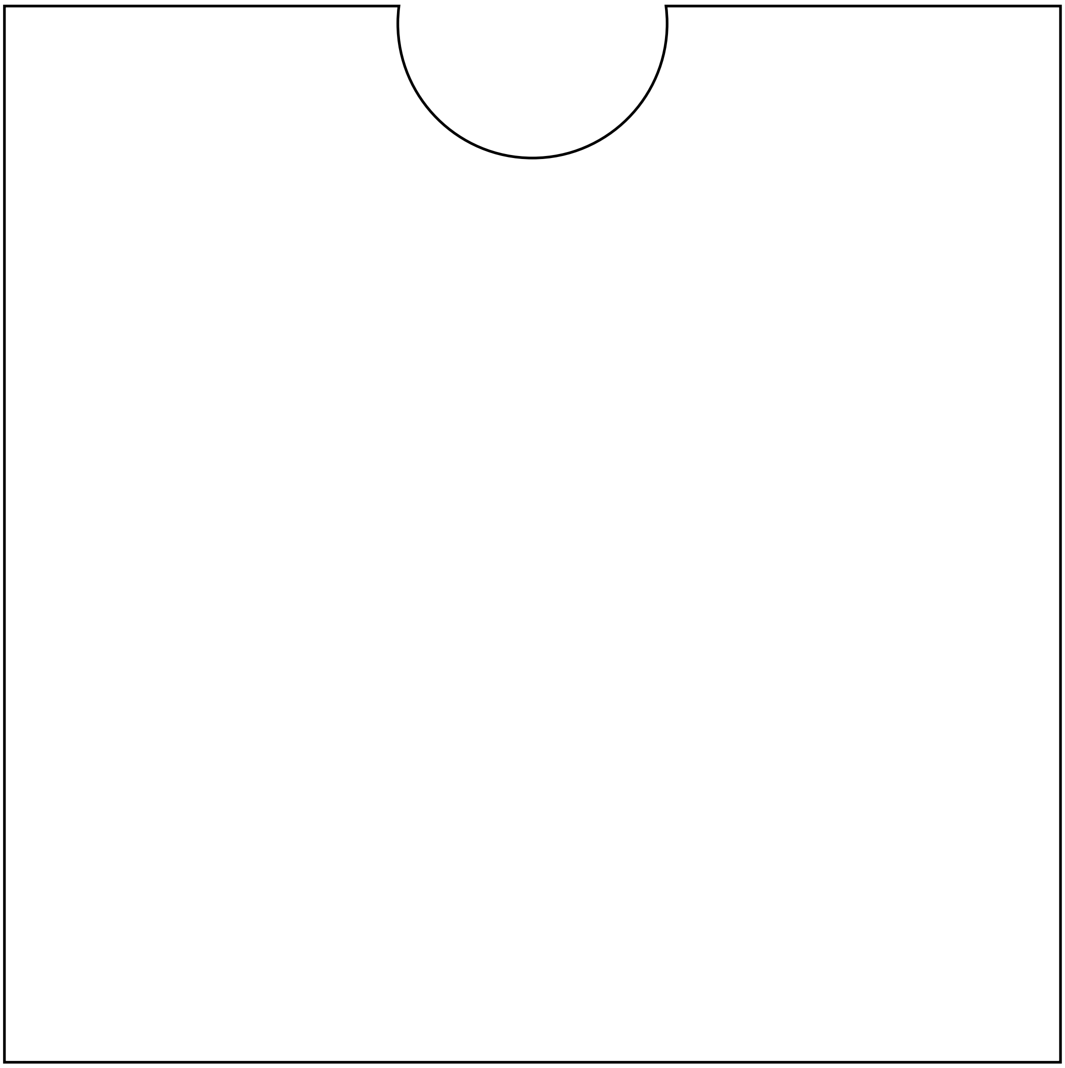
Sr. No.	Names of companies	Nature of interest	Number of units/shares
1	National Investment Trust	NIT Unit Trust	30,462
2	National Investment Trust	NIT Islamic Equity Fund	2,227,901
3	National Investment Trust	NIT Islamic Pension Fund	1,122,526
4	Al Meezan Investment management Ltd.	Meezan Tahafuz Pension Fund	17,684

Mr. Zafar Abdullah

Sr. No.	Name of company	Nature of interest	Number of units/shares
1.	Meezan Islamic Fund	Mutual Fund Units	38,330

* Mr. Tahir Mahmood, Mr. Shauzab Ali and Mr. Fida Hussain Samoo have filed nil declarations.

Notes:



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