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ANNUAL REPORT 2019

SECP

Securities and Exchange Commission of Pakistan

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بسم الله الرحمن الرحيم

VISION, MISSION AND STRATEGY

VISION

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

MISSION

To develop a fair, efficient and transparent regulatory framework, based on international legal standards and best practices, for the protection of investors and mitigation of systemic risk aimed at fostering growth of 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 gives me immense pleasure to bring on record that through a combination of strategic planning, dedicated teamwork and methodical implementation, SECP has been able to achieve significant milestones during the year ended June 30, 2019 as detailed in our report.

Three specific initiatives merit a mention; firstly, under its commitment to promoting ease of doing business, SECP was able to revamp numerous regulatory regimes and remove bottlenecks in regulatory compliance requirements in many of its regulated sectors. Some of the key successful initiatives include switching from mandatory code of corporate governance for listed companies to a "comply or explain" basis, eliminating redundant disclosure requirements under fourth and fifth Schedules of the Companies Act, 2017 and reduction of regulatory and supervisory costs in the insurance and NBFC areas. In addition, investors were facilitated through a revamp of buy-back regulations by relaxing requirements for buy-back of shares by listed companies and regulatory relaxations for the non-banking financial sector through amendments in Non-banking Finance Companies and Notified Entities Regulations, 2008. Furthermore, to facilitate small borrowers from SME and agriculture sectors to secure credit from financial institutions, SECP is establishing a Secured Transactions Registry (STR) for unincorporated entities and has notified Collateral Management Companies Regulations, 2019 under the Companies Act, 2017 for facilitating electronic trading and warehouse receipt financing of agricultural commodities. The improvement in Pakistan's "Starting a business" indicator from 130 to 72 as per World Bank "Doing Business 2020" study is an acknowledgement of SECP's success in this area.

Secondly, a reinvigorated focus on supervision and enforcement through effective offsite reviews, onsite inspections, enquiries, and investigations across all regulated sectors resulted in improved compliance with applicable legal and regulatory framework. This year, one of the focus areas of supervision was AML/CFT and cases of mis-selling. During the year, 574 cases of non-compliance with SECP's legal regulatory framework were referred for adjudication and show cause proceeding were initiated resulting in 311 orders being passed; as compared to 368 and 307 in fiscal year 2018. These efforts will bring market discipline and discourage mis-selling, insider trading, market manipulation and non-compliance with SECP's regulatory regime. Going forward, there will be zero tolerance for mis-selling of financial products. In this respect, another milestone is the decision and progress made in the centralization of adjudication function. This will help introduce more objectivity and transparency in enforcement actions.

Thirdly, to build a robust regulatory infrastructure for sustainable progress as a role-model regulator, increased focus was placed on improving internal processes, modernizing HR function and digitalization. In particular, the launch of Leading Efficiency through Automated Prowess (LEAP) project is a significant initiative towards transforming SECP into a modern and responsive regulator through embedding end-to-end automation, stronger risk management, transparency and fairness while delivering a world-class experience to its stakeholders. LEAP will improve the ease and cost of doing business, promote financial inclusion, automate enforcement actions and internal approvals, and help monitor and improve turnaround times through use of data analytics for meeting key objectives. Further, to strengthen human capital, a comprehensive one-year graduate training program has been designed to attract and train top graduates from across Pakistan. The purpose of this program is to recruit fresh graduates with high potential to be developed and groomed for playing a major supporting role in the growth of our organization.

SECP has an established tradition of proactively engaging with its multiple stakeholders for developing the regulated sectors through inclusive and consultative approach. Going forward, this approach will continue to characterize SECP's efforts at building robust and vibrant capital markets, insurance industry and corporate sector. During the last few months, the Commission has deliberately accelerated its outreach efforts. Keeping in view our stakeholders' concerns, perspectives and our future vision, we have set ourselves three strategic goals.

The first of our goals is to undertake reforms aimed at an effective yet efficient regulatory environment. While I am convinced that our foremost obligation is to build a regulatory environment that is sound, efficient and cost effective, yet I am equally cognizant of the need for the same to be empowering for business growth. One must not be sacrificed at the cost of the other. We need to be fiercely vigilant in the pursuit of transparency and compliance, yet be tirelessly focused on reducing regulatory barriers and cost of doing business. Businesses operate in dynamic environments that leave no room for complacency for those regulating them. We will continue to monitor market environment on an ongoing basis and adapt to the changing needs especially changes arising due to Fintech by adjusting our regulatory and oversight actions through creation of regulatory sandboxes.

Our second goal is to build our responsiveness and reflective capability. We need to continue to focus on enhancing our capabilities, simplifying our internal processes, embracing technology and building quick decision-making capability, backed by solid analytics; a lot of good work has gone into developing the roadmap to lay the foundation for these structural upgrades. This capacity will act as a bedrock for our future progress. Our ability to leverage technology, analyze data, promote information sharing and collaborate with other regulators as well as law enforcement agencies are all important objectives that we seek to excel in. We are committed to investing in this internal energizing project to create the enabling regulatory environment needed for promoting capital formation and business development.

Our third strategic goal is to develop a strong linkage between the real economy of the country and the capital markets. This challenge needs to be addressed through a multi-pronged approach involving simplifying regulatory requirements, energizing frontline regulators and supporting product development. The key areas of our focus will be helping start-up businesses in raising capital, supporting the development of a collateral management business, leading to trading of electronic warehouse receipts at a licensed exchange, supporting the launch of exchange-traded funds, helping the public sector in raising finance for infrastructure through capital market, and supporting microfinance institutions in providing access to finance for micro businesses. These are all areas that have received attention from SECP over the last few years; now is the time to convert some into a reality, while catalyzing the others.

While pursuing the above three fundamental strategic goals, SECP will continue to strengthen its regulatory oversight initiatives such as upgradation of surveillance capability, the use of supervisory technology and improvements in inspection regime. We will also work closely with stakeholders to revamp the custody model to help simplify and streamline custody of assets for capital market investors. For the insurance sector, focus on increasing penetration will be driven through implementation of compulsory insurances and development of the Microinsurance market. In the AMC sector, it is essential to pursue measures for enhancing investor outreach through the introduction of a centralized portal where investor needs are efficiently addressed.

I would like to reiterate that we at SECP are proud of what we have accomplished in the past year, and look forward to building on these successes as we continually review and recalibrate our approach to accomplishing SECP's mission. For the investing public, market participants and other authorities who interact with SECP, I assure you that our work will inspire your full confidence in our ability to respond to evolving realities. We will continuously strive to provide a safe, transparent and level playing field, wherein the rights of all stakeholders are adequately protected and their interests duly taken care of.

For my dedicated colleagues at the SECP, with special thanks for their commitment and contribution, I will reaffirm that our stakeholders have high expectations from us. The privilege of working for SECP brings significant responsibilities with it. Hence, it is imperative for us to remain abreast of the challenges and concerns of all the stakeholders. We must continue to serve with honor, and live up to these expectations.

I would like to record my appreciation for my fellow Commissioners for passionately, yet constructively sharing their perspectives, and actively contributing towards how we can best serve investors, businesses and the people of Pakistan. A special thanks to our retiring SECP Commissioners, Mr. Zafar Abdullah and Mr. Tahir Mahmood for their dedicated services to the Commission.

I am also particularly grateful to the Policy Board for their valuable guidance and support of SECP initiatives. Active engagement with the Policy Board on various regulatory reforms led to reduction in overregulation and cost burden in various sectors.

In the end, my special gratitude is reserved for the honorable Adviser to Prime Minister on Finance and Revenue and to the government and its attached departments for supporting SECP initiatives.

Aamir Khan
(Chairman)

CAPITAL MARKETS

Market Overview

Fiscal year 2018-19 was overall a challenging year for the markets. The year initially witnessed a steady decline followed by partial recovery that lost its impact towards the end. The KSE-100 index began the year at 41,910.90 points and ended at 33,901.58 on June 28, 2019, recorded a decrease of almost 19% since the beginning of the year. The market touched its lowest level, 32,354.06 on May 20, 2019 and recorded its highest level of 43,638.77 on July 31, 2018. The average daily turnover was 155.205 million shares and 36.8 million shares in ready and futures market, respectively.

A total of 544 companies with accumulated paid up capital of Rs1,340.2698 billion are listed on the Pakistan Stock Exchange as on June 30, 2019 with a market capitalization of Rs6,887.301 billion, reflecting an approximately 21% decline in market capitalization compared to last year. Foreign investment in the stock market exhibited a net outflow of $355.953 million during the year, which reflects a negative 26% compared to the last year. Despite all the turbulence, settlements have been executed in a timely manner that depicts strength of risk management in capital market.

Capital Issues

During the FY 2018-19, new capital of Rs10.161 billion has been listed on the PSX as compared to Rs5.015 billion in FY 2017-18. During the year M/s Interloop Limited has raised Rs5.02 billion from the capital market making it the largest ever private sector IPO. Details are given below:

Issue of Capital-Equity

S.No.	Company Name	Sector	Date of Listing	Listed Capital (In billion rupees)	Funds raised (In billion rupees)
1.	At-Tahur Limited	Food and Personal Care Products	July 30, 2018	1.467	0.770
2.	Interloop Limited	Textile Composite	April 5, 2019	8.694	5.025
	Total			10.161	5.795

Number of IPOs and funds raised during the last three years

Year	Number of IPOs	Fund raised (including premium amount) (In billion rupees)	Capital listed (In billion rupees)
2018-19	2	5.795	10.161
2017-18	4	4.047	5.015
2016-17	4	10.241	11.652

Issue of Redeemable Capital

During FY 2018-19, Soneri Bank Limited and United Bank Limited (UBL) offered Rs4 billion and Rs10 billion of listed Term Finance Certificates (TFCs) to the public respectively. Out of total issue of Rs4 billion by Soneri Bank Limited, Rs0.4 billion was offered to retail investors, whereas, Rs3.6 billion was offered to pre-IPO investors. Out of total issue of Rs10 billion by UBL, Rs1 billion was offered to retail investors, whereas, Rs9 billion was offered to pre-IPO investors.

During the FY 2018-19, Rs275.7 billion were raised through the issuance of privately placed debt securities. Details are given below:

Privately Placed Debt Securities

Sr. No.	Name of Security	Number of Issues	Amount (In billion rupees)
1.	Privately Placed Term Finance Certificates	05	13.9
2.	Privately Placed Sukuks	09	236.1
3.	Privately Placed Commercial Papers	05	25.7
	Total	**19**	**275.7**

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 (Further Issue of Shares) Rules, 2018. However, for issuing shares at a discount, other than right, preference shares or under employee stock option schemes, prior approval of the SECP is required. A comparison of capital issue cases dealt by the department during the last three years is as under:

Particulars	2017	2018	2019
Applications approved	9	6	11
Applications rejected	7	4	4
Applications in process	3	8	3
Total	**19**	**18**	**18**

Developmental Reforms

Foreign shareholding in PSX

To cater increased interest of foreign investors in the PSX shares, foreign persons, other than foreign anchor investors are allowed to acquire up to 20% of total issued share capital of PSX that was earlier capped at 10%.

Electronic filing for listed companies

To facilitate listed companies in filing/submission of various financial reports and other documents and to encourage paperless environment, electronic mode of report submission has been introduced.

PSX shares unblocked under Public Offering Regulations, 2017

At the time of sale of PSX shares, the shares of PSX sponsors were blocked under relevant regulations. Subsequently, these shares have been unblocked.

Listing of privately placed debt securities

To encourage and facilitate listing of privately placed debt securities (PPDS), PSX has been empowered to grant relaxations to companies listing PPDS.

Investor protection

In order to provide maximum relief to customers of defaulter brokers, regulations governing customer compensation fund have been amended to change the disbursement limit from the fund from “per broker” to “per client”. This would aid in settlement of maximum number of aggrieved investors.

Low risk account opening

In order to facilitate low risk retail investors, SECP has introduced KYC Sahulat account opening form which is easy and can be processed on fast-track.

Commodity futures contracts

SECP approved various new commodity futures contracts that includes Wheat, Corn, Soybean, Japan Equity 225 /USD ($1), Japan Equity 225 /USD ($5), Palladium (100 Oz) , Gold One-Gram, Gold Five-Gram, Gold Ten-Gram, Gold Tola, Gold Five Tola and Gold Ten Tola.

Establishment of Centralized Know Your Customer (CKO) Organization

The SECP in collaboration with other market intermediaries i.e. NCCPL, CDC and PSX launched the Centralized KYC Organization (CKO). The CKO will strengthen the verification process of capital market investors through introduction of biometric and mobile verification and online bank account confirmation. A centralized database of investors after carrying out Know Your Customer (KYC) is also established. The Implementation of CKO brings the following benefits to the investors and market intermediaries;

- Simplification of account opening through an easy Customer Relationship Form (CRF),
- One time KYC process for investors of capital market;
- Creation of centralized KYC repository of investors;
- Ease of opening account with multiple market intermediaries;
- Elimination of fictitious accounts through VERISYS, BIOSYS;
- Cross verification of the investors' basic information i.e. addresses, contact number etc.;

Regulatory Reforms

Compliance with AML/CFT framework

Necessary amendments have been carried out in the PSX Rulebook to ensure that the securities brokers comply with the provisions of the SECP's (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018; and the Guidelines on AML/CFT and Proliferation Financing also issued by the SECP. Furthermore, non-compliant brokers shall also face enforcement actions as deemed appropriate by the SECP.

Futures Brokers (Licensing and Operations) Regulations, 2018

The SECP, under the Futures Market Act, 2016 framed Futures Brokers (Licensing and Operations) Regulations, 2018 for licensing and operations of future brokers dealing in futures contract based on commodity and financial instruments. The regulations include requirements relating to licensing, fit and proper criteria for sponsors, directors and senior management of futures brokers, and compliance with AML requirements.

Settlement of investors claims

Essential reforms have been introduced in the process for enabling impartial, smooth and timely settlement of claims of investors against defaulter brokers. Reforms introduced include standardizing valuation of customer claims, designating specific time period for invitation of claims as well as prescribing a period of 120 days for settlement of claims. Further, the PSX Default Committee which handles such claims is now mandatorily required to utilize expertise of independent expert or external auditor for each case of claim verification to bring in desired objectivity to the process.

Brokers office/branch office regulations

Stringent eligibility requirements have been introduced for opening of new offices/branches by securities brokers. Only brokers with impeccable track record and compliance history in dealing with complaints and arbitration awards up to the satisfaction of the PSX are now allowed to open new offices/branches. The reform also requires periodic offsite monitoring of the offices/branches of securities brokers by PSX.

Inclusion of GOP Ijarah Sukuk in the list of Margin Eligible Securities (MES)

In order to facilitate the capital market investors, inclusion of Ijarah Sukuk issued by the Government of Pakistan as acceptable Margin Eligible Securities (MES) was approved by SECP. This will improve the quality of collateral deposited by investors with NCCPL and also facilitate investors to take more exposure in the market with a high quality, fewer haircuts and low risk profile instrument.

Amendments in Central Depository (Licensing and Operations) Regulations, 2016
To align the regulatory framework of Central Depository with the provisions of Companies Act, 2017, amendments in Central Depository (Licensing & Operations) Regulations, 2016 regarding the financial resource requirements have been made wherein net worth shall be calculated as total assets minus total liabilities. Before amendment, for the purpose of these regulations, net worth was calculated as total assets less total liabilities less surplus on revaluation, if any, created upon revaluation of fixed assets.

Separate tariff structure for public unlisted and private limited companies
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 as notified by the Commission. In this regard, the Central Depository was directed to rationalize the tariff structure for public unlisted companies and private limited companies for inclusion of physical securities in Central Depository System as book-entry securities. CDC is underway to finalize the procedural requirements and tariffs thereof.

Amendments in regulations pertaining to eligibility criteria of margin trading eligible securities
In order to improve the operational efficiency, depth and liquidity in capital market, SECP approved the amendments to relax initial screening criteria for Margin Trading Eligible Securities by increasing maximum number of securities from top 100 to 200 securities. This will result in increasing the depth of the pool of eligible securities so that relatively large number of securities will be available for determining MT eligible Securities and would be helpful in generating more liquidity in the capital market.

Introduction of category B of margin eligible securities

In order to increase liquidity in the market, criteria for category B of securities eligible for Deliverable Futures Market and Margin Trading also introduced. This will diversify the collateral composition and reduce the concentration in securities deposited with NCCPL as collateral.

Amendments to NCCPL Regulations, 2015
With the promulgation of Securities Act, 2015 and subsequently issuance of Clearing House (Licensing and Operations) Regulations, 2016, National Clearing Company of Pakistan Regulations needed to be amended in order to bring conformity and harmonization. The key areas where subject regulatory amendments have been approved by the SECP are: incorporate duties of Clearing House, alignment of definitions, regulations relating to outsourcing of important functions, new chapter on Governance, defined role of Chief Regulatory Officer, regulatory requirements relating to compliance, audit and inspection of clearing house, provisions relating to risk management and provisions relating to default management.

Moreover, Non-Broker Clearing Member (NBCM) that are mainly financial institutions including banks, mutual funds, AMCs, insurance companies, DFIs etc. are allowed to settle their trades directly with NCCPL using Institutional Delivery System (IDS) facility. Some of the financial institutions/ entities who are not NBCM or Broker Clearing Members (BCM) have to settle their trades with NCCPL, resulting in burden on BCM in the form of margin requirements and settlement obligations.

In order to resolve the issue, and for ease of doing business for BCMs in the form of better working capital management; SECP in consultation with market participants has made it compulsory for all equity based mutual funds, banks and financial institutions, DFIs, investment companies, investment advisors, AMCs, non-equity based mutual funds whose settlement values during the last 6 months exceed PKR 500 million to obtain NBCM status. In view of the above, shifting of settlement obligations from the brokers to the financial institutions/ entities also reduces risk of settlement and brings more discipline in the market.

Introduce IPO facilitation account
To broaden the investor base, SECP in coordination with CDC has introduced the IPO Facilitation Account. The said account would enable all those investors who do not have CDS accounts at the time of IPO subscription but intends to subscribe IPO securities through Centralized E-IPO system. The investors can later open their CDC accounts and get their securities transferred in their respective accounts, till then securities will be in IPO Facilitation Account. This facility was introduced with the objective of facilitating new investors and encouraging maximum participation of retail investors in the IPOs.

Access to UIN portal of National Clearing and Settlement System (NCSS) by PMEX

In order to facilitate the Pakistan Mercantile Exchange Limited, SECP approved amendments to the NCCPL regulations for providing direct access of National Clearing and Settlement System (NCSS) to PMEX for registration of Unique Identification Number (UIN) of its new clients. Prior to this amendment, PMEX transmitted details of UINs electronically through an interface to NCCPL. However, after said amendments, the process of generating UINs by PMEX for Futures Market will become easy and more efficient.

Shariah compliant financing arrangements for capital market investors

In order to promote Islamic finance in the capital market, SECP is introducing Shariah based financing modes and has devised a model for financing of shares purchased by investors at the stock exchange. In this regard, draft regulations on Murabaha Share Financing product have been prepared and approved by the Shariah Advisory Board of SECP. The said draft is under legal vetting and is expected to be finalized soon. In order to launch Murabaha Share Financing Product for capital market investors for Shariah compliant financing against equity exposure, meetings were conducted with NCCPL and CDC to make necessary system level changes.

Future Outlook

In line with its mandate of investor protection and development of fair and efficient financial market in Pakistan, the SECP shall continue its efforts aimed at strengthening risk management, increasing transparency, reducing systemic risk, improving governance of capital market infrastructure institutions and enhancing investor protection.

Launch of Exchange Traded Funds (ETF)

There is a dire need to give rise to the number of retail stock investors at Pakistan's stock market. This required introduction of new products in the market. The derivative product called ETF will be instrumental in broadening capital base of market. The SECP would prepare requisite framework and reforms to facilitate launch of new products such as market making framework for ETFs. It would be listed on Pakistan Stock Exchange and would be traded on the PSX similar to stocks. This product enjoys advantages of both mutual funds and stocks.

Revamping of IPO regime

The SECP intends to revamp initial public offering (IPO) regime to make the process simple, cost effective, and more efficient. In a bid to attract new listings and to promote capital formation through securities market, the objective eligibility criteria for listing of companies will be simplified. Further, amendments would be introduced with the perspective of providing ease and reducing cost of IPOs.

Introduction of Growth Enterprise Market (GEM)

SMEs constitute nearly 90% of all the enterprises in Pakistan; employ 80% of the non-agricultural labor force; and their share in the annual GDP is 40%, approximately. However, unlike large enterprises in the formal sector, a small and medium enterprise is constrained by financial and other resources. The Commission believes that there has to be a market place where small businesses can offer their business plans. Therefore, the SECP, to enable small and medium enterprises, greenfield projects, not-for-profits and other companies to raise capital through capital markets conveniently, will introduce Growth Enterprise Market Listing Regulations.

Introduction of standardized brokerage commission

In order to support the growth of the industry and promote competition, minimum and maximum limits of brokerage commission shall be prescribed to regularize the erstwhile unregulated areas of the capital market. These standardized limits will provide a level playing field for all market participants and would ensure delivery of quality brokerage services to the investors.

Expansion of circuit breakers and introduction of market halts

The existing circuit breakers are comparatively narrow and restrictive and may adversely affect price discovery and market growth. In line with international best practices, market halt shall be instituted on KSE-30 index to give a cooling-off period to the market, prevent irrational price fluctuations and allow brokers to deposit their margins with the clearing house. Similarly, circuit breakers on individual scrips shall be expanded in a phased manner from the existing level of 5%. Further, relaxed circuit breakers would also benefit the derivatives segment, which require more flexibility in the underlying market to function efficiently.

Regulatory reforms and development measure

Requisite regulatory framework and reforms will be pursued to facilitate market-making framework for ETFs, regulations for Share Murabaha Financing and equity crowd funding. Further, in order to simplify laws and remove redundancies, the Commission Intends to critically review and consolidate the Securities Act, 2015 and the Futures Markets Act, 2016. Moreover, holistic review of PSX and PMEX Rule Books will also be performed for reforms targeted at ease of doing business, addressing over-regulation and removal of any practical difficulties.

Introduction of new broker regime

In order to enhance security of investor assets with the securities brokers, a new broker regime will be pursued to introduce categorization of securities brokers according to their financial resources and governance standards. Only securities brokers which comply with enhanced net worth, corporate governance, regulatory compliance and rating requirements will be allowed to retain custody of investor assets. The upcoming regime will enhance investor protection, develop brokerage industry and improve regulatory compliance.

CORPORATIZATION

Sector Overview

During the year, the SECP registered 14,461 new companies, 27% higher as compared to the last financial year. Out of the new companies registered, approximately, 73% companies were registered as private limited companies, 24% as single member companies and 3% were registered as public companies, not-for-profit associations, trade organizations, foreign companies or limited liability partnerships. This year, around 93% companies registered online and 54% registered within same day. Total number of registered companies as of June 30, 2019 were 101, 328.

Moreover, foreign investment has been reported in 617 new companies. This year 37 foreign companies from Canada, China, Germany, Hong Kong, Malaysia, the Netherlands, Saudi Arabia, Singapore, Sri Lanka, Thailand, Turkey, the UK and the US have established places of business in Pakistan during the year under review.

The SECP has introduced several reforms to simplify company incorporation process. These reforms include payment of fee through mobile and internet banking, issuance of certificate of incorporation through e-mail and further simplification of PIN generation process. The SECP has also integrated its online system with Federal Board of Revenue (FBR), Employees Old Age Benefits Institutions (EOBI) and Business Registration portals of Punjab and Sindh. After this integration, SECP's eServices is offering one window facility for company registration with FBR (NTN registration), EOBI, Provincial Employees Social Security Institutions (PESSI/SESSI), Labor Department and Excise and Taxation Department of Punjab and Sindh.

The SECP's measures for ease of doing business contributed in improving Pakistan's ranking by climbing up 11 notches in World Bank's annual Doing Business Report 2019, improving from 147 to 136. The report measures the performance in ease of doing business in 190 countries. According to the report Pakistan made 'Starting a Business' easier by introducing an online one-stop registration system, replacing several forms for incorporation with a single application and establishing information exchange between the SECP and the FBR. As per the report, Pakistan has reduced the number of procedures, days and cost of starting a business and witnessed its biggest jump in the area in over a decade.

Licensing under section 42 of the Companies Act

During the financial year 2018-19, the SECP has issued 53 licenses to not-for-profit associations under section 42 of the Companies Act, 2017, with objects of arts, sports, social services, charity etc. Besides, licenses of 13 not-for-profit associations have been renewed, while licenses of 35 not-for-profit associations were revoked due to non-compliance.

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 beneficial owners. The SECP received 2,030 returns both from the listed companies and beneficial owners during the year under review. The returns received during the last three years are tabulated below:

Year	2017	2018	2019
Return Received	2,600	2,650	2,030

*During the year under review, two beneficial owners returned the gain.

Schemes of arrangements

The schemes of arrangement, amalgamation and reconstruction 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. Presently, schemes of arrangement of small-sized companies are approved by the SECP.

The aggregate number of schemes of arrangement, amalgamation or reconstruction dealt with during the preceding three years are as follows:

Particular	2017	2018	2019
Scheme of Arrangements/ Reconstruction/ Amalgamation	26	23	34

Regulatory applications/approvals

The SECP's Corporate Supervision Department processes applications filed by listed companies under various provisions of the law for granting regulatory approvals under the applicable legal regulatory framework. Details relating to applications processed by the department in the preceding three years is as follows:

Application for other regulatory approvals			
	2017	2018	2019
Appointment of cost auditors	48	8*	-
Withholding of dividend	28	17**	-
Extension in time to hold AGM	31	36	45
Extension of first quarterly accounts	-	21	28
Exemption from preparation and filing the consolidated accounts	16	13	14
Group companies registration/ deregistration	7	7	1
Approvals for extension of loans to directors of a company	1	3	3
Others	-	10	17

* In terms of requirements of section 250 of the 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.

Regulatory approvals and permissions

Under the provisions of the Companies Act 2017, 23 applications seeking regulatory approvals were received and after due consideration necessary approvals were granted as follows:

S.No.	Relevant section of the Act	Nature of approval/permission sought	Total
1	Section 225	Exemption from the applicability of International Financial Reporting Standards (IFRS)	3
2	Section 228	Exemption from consolidated financial statements	5
3	Section 229	Extension of financial year	1
4	Section 246	Appointment of Auditors	4
5	Section 276	Applications for empanelment on Mediation and Conciliation Panel	4
		Total	17

Improvement in regulations

- Related Party (Transactions and Maintenance of Related Records) Regulations, 2018 was notified through SRO 1194(I)/2018 dated 2 October 2018, specifying minimum parameters for the policy to be approved by the board for related party transactions. The Regulations also specify the terms and conditions under which a related party transaction is to be considered on "arm's length basis", and the minimum information required to be disclosed to the board and members for seeking their respective approvals. Moreover, Regulations also specify the forms for registers of contracts or arrangements in which directors are interested and other information to be disclosed by directors.
- Amendments in the Listed Companies (Code of Corporate Governance) Regulations, 2017 were made through notification SRO 1475(I)/2018 dated December 5, 2018, which were aimed at facilitating listed companies to adopt best practices and to facilitate inclusion of qualified individuals on boards by expanding exemption criteria from the requirements of Directors Training Program.
- Companies (Issue of Further Shares) Regulations, 2018 were notified through SRO 1399(I)/2018 dated November 14, 2018, wherein all relevant requirements of the Act, different sets of Rules, directives and guidelines were consolidated. The Regulations shall facilitate companies in increasing their capital through issue of ordinary shares, preference shares and employee stock option schemes.
- Amendments in Employees Contributory Funds (Investment in Listed Securities) Regulations, 2018 were notified vide SRO 491(I)/2019 dated April 25, 2019. The amendments were based on relevant input received from MUFAP that specifically related to limits of investments in money market collective investment schemes, equity collective investment schemes and debt collective investment schemes. The limits of investments have been enhanced vide the aforesaid SRO.
- Listed Companies (Buy-back of shares) Regulations, 2019 were notified after extensive public consultations vide SRO 574(I)/2019. Commission revisited requirements for buyback of shares by listed companies in order to remove impediments and to facilitate capital market participants.

Upgradation of company registration offices

The Commission is cognizant of the fact that the Company Registration Offices (CROs) are the public face of the SECP therefore improvement in customer service experience at CROs has been the focus area recently. The first step in this regard was establishment of designated facilitation desks for company registration at CRO Karachi, Lahore and Islamabad to provide exclusive assistance to visiting general public in swift manner. Besides, in order to identify bottlenecks and frequent issues faced by the general public in their interactions with the CROs, a customer feedback mechanism is being introduced in phased manner. The focus is on technical issues as well as qualitative aspects of overall customer service. On the basis of feedback provided by the users, a number of changes are being implemented to further improve the company incorporation process as well as user experience.

Moreover, the customer facilitation improvement of the function of CROs, through end-to-end process automation and digital transformation, is a major component of SECP's flagship project LEAP for digitalization . As a first step process re-engineering has been initiated which aims to simplify the processes and remove bottlenecks and duplications. End to end automation, enabling electronic submission, processing, acceptance/recording of applications/returns and issuance of final certificate electronically will make the processes more efficient leading to enhanced customer satisfaction through improvement in turnaround time and transparency. Besides, establishment of state-of-the-art business centers exclusively for company registration in Karachi, Lahore and Islamabad is also on our agenda.

Future Outlook

Improvement in company registration process

To further facilitate company registration, we plan to establish business centers in Karachi, Lahore and Islamabad exclusively for company registration services. Introduction of digital certificate of incorporation, extension of one window facility for company registration to other provinces and integration with FBR for sales tax registration is also on our agenda.

Draft Corporate Restructuring Companies Rules, 2019

The Corporate Restructuring Companies Act, 2016 (the Act) has been enacted to provide for establishment, licensing and regulation of corporate restructuring companies and the manner in which they can carry out their business. The SECP has proposed draft Corporate Restructuring Companies Rules, 2019, covering the following areas, to regulate the business of corporate restructuring companies;

- the procedure and requirements for application to the Commission for incorporation and licensing of a corporate restructuring company;
- license cancellation procedure; and
- management and disposal of non-performing assets.

Draft Corporate Rehabilitation Regulations, 2019

The Corporate Rehabilitation Act, 2018 (the Act) has been enacted to provide for rehabilitation of distressed corporate entities and their businesses to encourage economic growth and development. This Act provides for restructuring and rehabilitation of distressed and sick corporate entities with consensus of all relevant stakeholders through a mediator appointed by the Court to carry out mediation between the debtor and creditor to achieve acceptance of a plan of rehabilitation.

In order to prescribe qualification, ineligibility, and remuneration related matters of mediators/insolvency experts, Corporate Rehabilitation Regulations, 2019 have been drafted. These regulations also prescribe a code of conduct for such experts. The draft has been issued for public consultation subsequent to the year-end.

Secured Transaction Registry

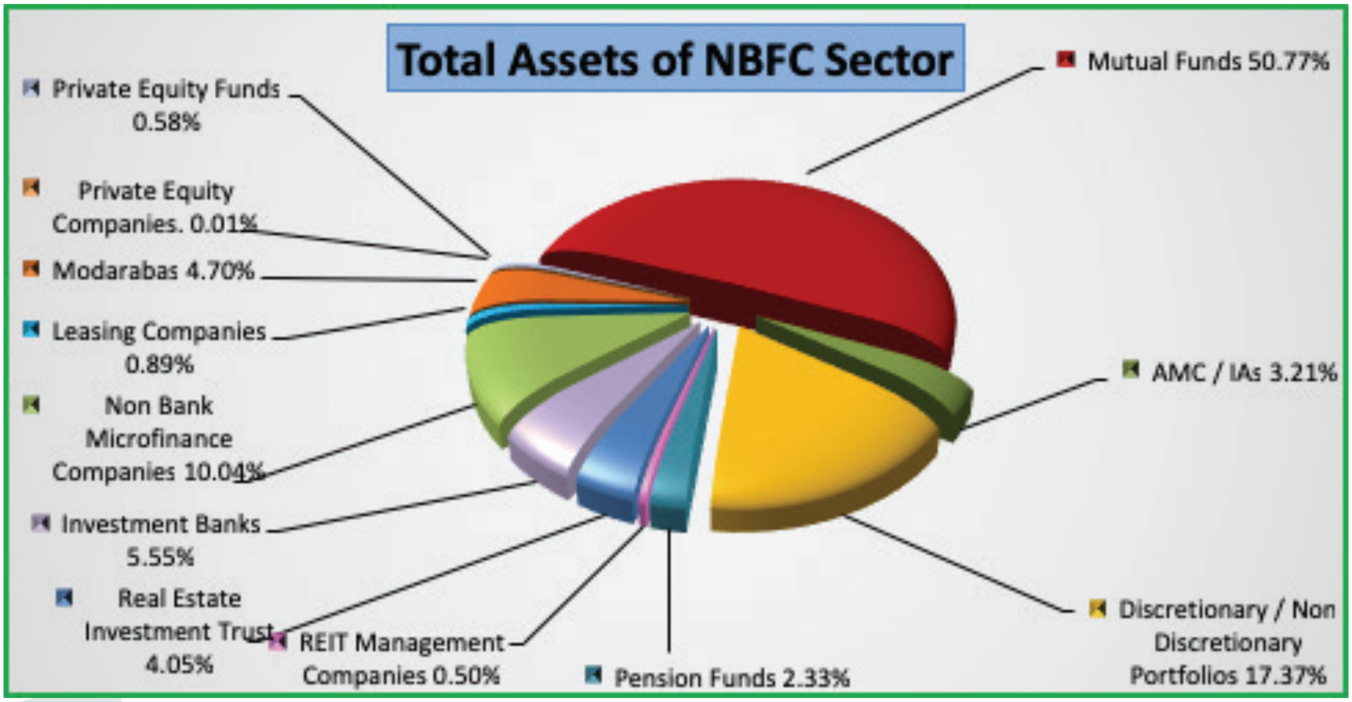
Formation of Unified Collateral Registry for incorporated and unincorporated entities covering movable assets

- "Getting credit" indicator of the World Bank Ease of Doing Business index requires an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of security interests in movable assets. It further requires establishment of a unified collateral registry for security interests granted over movable property by incorporated and unincorporated entities that has geographical access for its users.
- SECP is maintaining a registry of charges/security interests created by companies for moveable and immovable assets under the Companies Act, 2017 (and earlier under the repealed Companies Ordinance, 1984). The Financial Institutions (Secured Transactions) Act, 2016 (STA) has been enacted to provide an integrated legal framework for creation of security interest over movable assets and primarily to provide for establishment of a secured transactions registry for unincorporated entities. The objective was to facilitate small borrowers from SME and agriculture sector to get credit from financial institutions against their movable assets e.g. receivables, intellectual property, inventory, agricultural produce, petroleum , minerals, motor vehicles etc.
- Federal Government, vide notification dated March 29, 2019, has notified establishment of the Secured Transaction Registry (STR) for unincorporated entities and the function of the registry has been outsourced to SECP under Section 34 of the STA. SECP is in the process of drafting the rules and regulations to be framed under the STA. SECP's registry of charges will be integrated with STR to form a Unified Collateral Registry with geographical access to its users.

NON-BANKING FINANCIAL SECTOR

Sector Overview

On June 30, 2019, the asset size of NBF sector stood at Rs1,140 billion as compared to Rs1,228 billion reported as on June 30, 2018, reflecting an overall decrease of 7.15%. The diagram and table below illustrate the details of the total asset size of the NBF sector as of June 30, 2019:



Sector	Number of entities	Total assets (in million rupees)	As percentage of total assets	Total deposits / Investments (in million rupees)
Mutual funds/plans	297	577,644.07	50.77%	577,644.07
AMCs/IAs	23	36,559.49	3.21%	-
Discretionary/non-discretionary portfolios	-	197,635.20	17.37%	-
Pension funds	19	26,497.77	2.33%	26,497.77
REIT management companies	5	5,722.65	0.50%	-
Real Estate Investment Trust	1	46,054.1	4.05%	46,054.16
Investment banks and micro finance institutions	36	179,917.12	15.59%	4,449.18
Leasing companies	6	10,157.00	0.89%	518.06
Modarabas	28	53,453.62	4.70%	9,559.35
*Private equity companies	4	158	0.01%	-
Private equity funds	3	6,568.00	0.58%	-
Total	422	1,140,367.07	100%	664,722.59

*Lakson Investments Limited and JS Investments Limited (which hold licenses for Asset Management and Investment Advisory Services) have also been authorized to act as a Private Equity Company. Both companies' assets are included in the assets of AMCs/IAs.

The total size of the industry on June 30, 2019, stood at Rs577.64 billion and the total number of funds (including plans) was 297. As of June 30, 2019, equity funds dominated the AUMs of the mutual fund industry with the largest share of 33.99%, while money market funds held the second largest industry share i.e. 29.07%, followed by Income funds with industry share of 21.03%.

In order to further foster growth of the mutual fund industry and promote ease of doing business, the SECP instituted several regulatory reforms in the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (NBFC Regulations, 2008).

SECP provided operational flexibility to the Asset Management Companies (AMCs) on charging different types of expenses within the overall expense ratio ceiling. In this context, regulatory cap on management fee was withdrawn and AMCs can now charge management fee within the expense ratio limit. Accordingly, expense ratio cap for Equity, Balanced, Asset Allocation and Capital Protected (dynamic asset allocation-direct exposure) schemes has been enhanced from 4% to 4.5% of average daily net assets value, and for Income, aggressive income, Capital protected, Index and Commodity Schemes (cash settled) has been enhanced from 2% to 2.5%.

Furthermore, in order to facilitate efforts for enhancing outreach of mutual funds, AMCs have been allowed to charge Selling and Marketing expenses including Alternative Delivery Channels expenses to all categories of funds without any time and sub-limit.

Moreover, in order to reduce the operational burden on AMCs, SECP has also removed requirements of various regulatory approvals for mutual funds. AMCs have been allowed to make modifications in the Constitutive Documents including amendments with respect to change in regulatory requirements (other than changes in the Fundamental Attributes of the fund) without approval of the Commission. The requirement for seeking approval of the Commission for appointment of trustee for each new Collective Investment Scheme has also been withdrawn and validity of the Commission's approval for constitutive documents has been extended from 60 days to 120 days.

Investment Advisory

At present, 16 AMCs have licenses to conduct the business of investment advisory in addition to business of asset management services while four NBFCs have exclusive licenses to offer investment advisory services.

Private Fund Management

Four NBFCs namely PNO Capital Limited, Ijarah Capital Partners Limited, Lakson Investments Limited and JS Investments Limited have been granted license to undertake Private Equity and Venture Capital Fund Management services. Three NBFCs have launched four funds namely PNO Pakistan Fund-1, Lakson Private Equity Fund, Lakson Venture Capital Fund I and Pakistan Emerging Market Fund-1. As of June 30, 2019 the total assist size of Private Equity funds stands at Rs6,568 million.

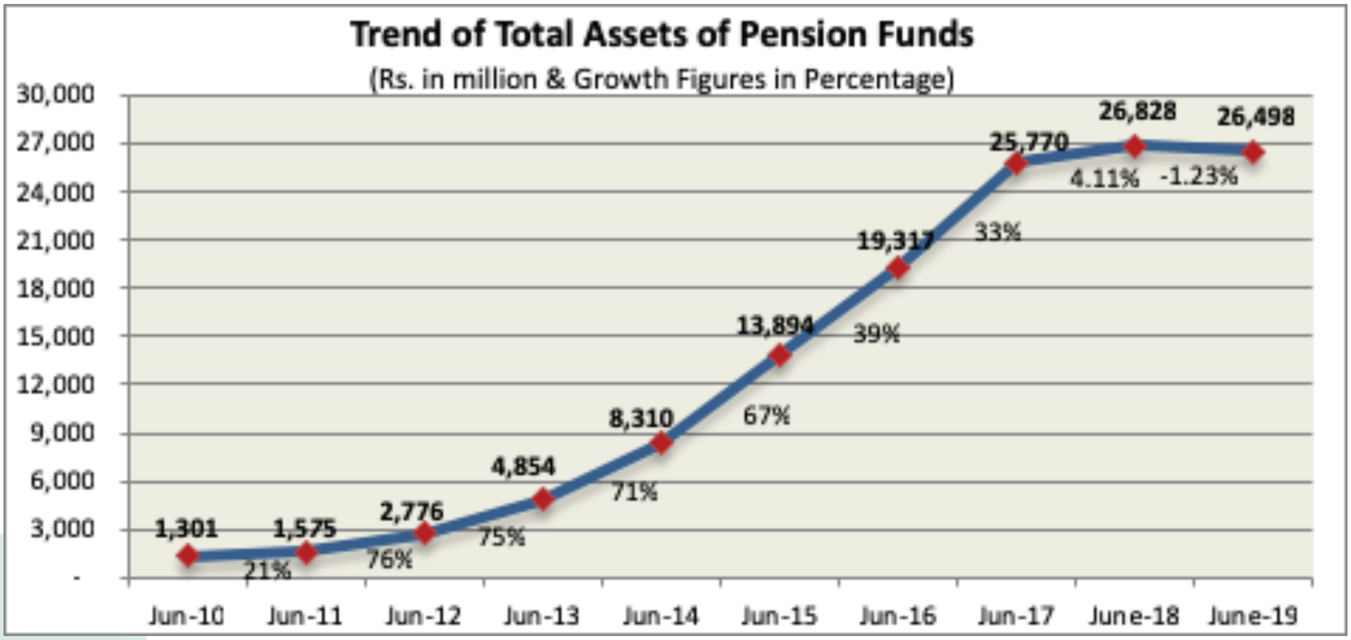
Size of private equity funds as of June 30, 2019

S. No	PE Fund name	Total assets (in million rupees)
1	PNO Pakistan Fund-1 (Plan A)	673
2	Pakistan Emerging Market Fund-1	4,393
3	Lakson Private Equity Fund	1,502
	Total	6,568

Voluntary Pension System

As of June 30, 2019, the total assets of the pension schemes stood at Rs26.5 billion out of which 63.6% were invested in Sharia-compliant pension funds and 36.3% in conventional pension funds. The key statistics in respect of pension fund industry as of June 30, 2019 are as follows:

Total assets of pension fund industry	Rs26.5 billion
Total number of pension funds	19
Shariah-compliant pension funds	10
Conventional pension funds	9
Number of pension fund managers	10



Real Estate Investment Trusts (REITs)

During the period under review, a new REIT management company (RMC) was licensed to undertake REIT management services, raising the number of RMCs to five. The total assets of these five REIT Management Companies were Rs5,722.65 million, as of June 30, 2019. Currently, there is only one REIT scheme, i.e., Dolmen City REIT (DCR) with total assets of Rs46.05 billion as of June 30, 2019. The dividend yield for DCR for the year stands at 13.2%.

The SECP also organized a high-level stakeholders' meeting to identify factors inhibiting growth of the REIT sector. The event was attended by RMCs, businesspersons, lawyers, valuers etc. In light of recommendations/feedback received from the stakeholders, necessary amendments have been incorporated in the REITs Regulations, 2015 with the aim of simplifying and streamlining the regulations and overall processes to foster further growth and provide ease of doing business.

Lending Non-Bank Finance Companies (NBFCs)

Lending NBFCs are licensed to undertake leasing, investment finance services, housing finance services and 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. For ease of doing business, many of the regulatory impediments were identified and removed by making necessary amendments to the law governing NBFCs. The SECP is continuously striving to remove the barriers to foster the growth of this sector. All these efforts are aimed at financial inclusion of marginalized segments of the society. During the year, a comprehensive grievance redress mechanism for borrowers of NBMFCs was devised and implemented after consultation with the World Bank, State Bank of Pakistan and Pakistan Microfinance Network.

Additionally "Agriculture processing companies" were notified as financial services companies with the aim of facilitating farmers to get access to all value-adding activities involved in bringing a product from production to the end-consumer under one roof.

Leasing companies

The number of leasing companies decreased from seven on June 30, 2018 to six as on June 30, 2019 as license of a company was cancelled due to non-compliances with the NBFC regulatory framework. Subsequently, the company on July 1, 2019 filed an appeal against the license cancellation with the Appellant Bench, which is pending for adjudication. Resultantly, asset size of leasing companies marginally decreased from Rs10.359 billion as of June 30, 2018 to Rs10.157 billion as of June 30, 2019.

Investment finance companies

The total number of investment finance companies remained unchanged at ten since June 30, 2018. During the year, a new investment finance company was licensed to lend money to low-income private schools in Pakistan while license of a company was cancelled due to non-compliances with the NBFC regulatory framework. Subsequent to the year end, the company obtained stay on the cancellation of license from the Hounourable Lahore High Court. The total asset size of investment finance industry is Rs63.19 billion as of June 30, 2019.

Non-Bank Microfinance Companies

The SECP continued its efforts to facilitate smooth transition of microfinance institutions (MFIs) into formal non-bank microfinance companies (NBMFCs). For the purpose, regular consultations with key stakeholders such as Pakistan Microfinance Network (PMN) and Pakistan Microfinance Investment Company (PMIC) took place.

Moreover, amendments to the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 were made for; (i) defining minimum thresholds for mandatory licensing of NBMFCs; and (ii) allowing setting up of wholly owned non-financial subsidiaries by an NBMFC. This enables NBMFCs to invest in their wholly owned non-financial subsidiaries for multiple purposes, including education and rural development etc.

During the year, a new NBMFC was licensed to provide Nano-credits in Pakistan while due to national security concerns, an administrator was appointed to manage the affairs of one NBMFC. Hence, as of June 30, 2019, the number of licensed NBMFC increased to 26 from 25 on June 30, 2018. The total assets of NBMFCs increased to Rs117 billion as of June 30, 2019 as against assets of Rs97.17 billion on June 30, 2018.

The assets of companies licensed to undertake lending business, including investment banks, leasing companies and non-bank microfinance companies have decreased to a total asset size of Rs190.2 billion as compared to Rs225.839 billion as on June 30, 2018. As of June 30, 2019, the total asset size of the lending NBFCs is as follows:

Lending NBFC	Number of entities	Total assets (In billion rupees)
IFCs	10	63
NBMFCs	26	117
Leasing companies	06	10
Total	42	190

Modaraba

The modaraba sector has witnessed steady growth in the last few years. The modaraba model is now being considered as preferred financing mode for most of the financial institutions. During the year under review, a new Modaraba management company was registered, while, a no objection certificate was issued to form and register as a modaraba management company.

Furthermore, in order to foster growth and promote ease of doing business the SECP proposed major amendments to the Modaraba Ordinance, which includes the concept of unlisted modarabas, the empowerment of certificate holders, attractive remuneration structure for the management companies and reduced cost of doing business. The proposed reforms are expected to contribute towards development of the modaraba sector. The amendments have been sent to the Federal Government for approval of the Parliament of Pakistan for promulgation.

Notification of Collateral Management Companies Regulations, 2019

In order to promote electronic trading and warehouse receipt financing of agricultural commodities, the SECP is currently working towards notifying Collateral Management Companies Regulations, 2019 under section 457 of the Companies Act, 2017. Collateral management companies will provide storage and preservation services for a range of agricultural commodities and will issue warehouse receipts for agricultural commodity financing.

Future Outlook

The NBFI sector is recognized as a key driver of economic progress in developing economies. It is increasingly recognized as valuable alternative to bank financing. It helps support economic activity and employment generation while enabling segments unable to access banking channels to access diversified financing and investment alternatives. For a well-functioning financial market, it is crucial that along with the banking sector, NBFIs play their due role in uplifting economic activity. In order to achieve a well-diversified NBFI sector, which provides sustainable financing and investment options, the Commission has targeted the following objectives:-

- Drafting of a separate primary law for NBFCs and Collective Investment Vehicles to provide modern and dynamic regulatory framework for the rapid and effective development of NBFIs.
- To provide a flexible licensing regime in NBFC sector by making necessary amendments in NBFC Rules 2003 to promote and encourage new entrants.
- To promote the alternative source of funding for SMEs, necessary amendment will be made in Private Fund Regulations 2015 to encourage and facilitate launch of different funds types of funds.
- Introduce necessary amendments in NBFC Regulations to facilitate product diversification and enhance the risk taking appetite of non-deposit taking lending NBFCs .
- Facilitate and promote development of Voluntary Pension Systems by removing regulatory bottlenecks in VPS Rules 2005
- Consultation with the stakeholders to promote the REIT Sector including targeted sessions to promote awareness of the REIT model and recent regulatory changes to REIT Regulations, 2015;
- Introduce enabling provisions in the NBFC Regulations, 2008 with the focus for grievance resolution mechanism for NBMFCs customers;
- Revision of existing Prudential Regulations to remove practical difficulties;
- Amendments in the Modaraba Rules that are subject to approval and promulgation of amendments proposed in the Modaraba Ordinance;
- Completion of subordinate legislations under the new modaraba law (subject to promulgation of new modaraba law).

INSURANCE

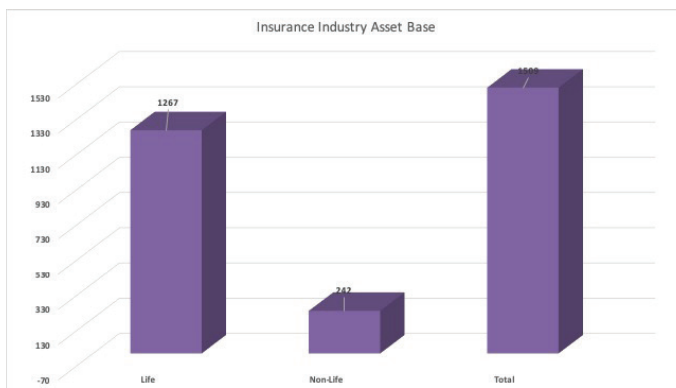
Sector Overview

The insurance industry in Pakistan plays a pivotal role in the overall development of the economy by providing risk management solutions and by serving as a major institutional investor for the capital and money market. The insurance sector possesses a huge potential for expansion and growth. Due to slow economic activity in the country including negative stock market performance, the insurance industry could not post significant growth either in life or non-life insurance sectors in the last calendar year.

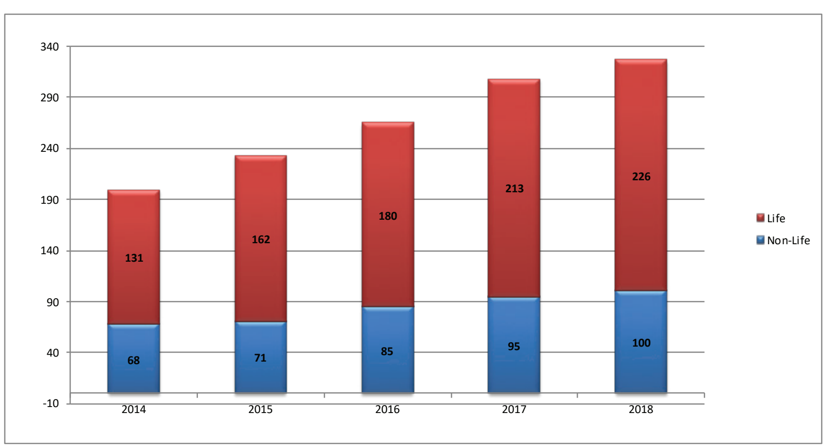
During the calendar year 2018, the industry has recorded a growth of around 6% in terms of Gross Written Premium, when compared to last year. As of December 31, 2018, the total assets of the insurance industry were Rs1.509 trillion, and the industry had underwritten total gross written premium revenue for CY 2018 amounting to Rs326 billion. This is in comparison to total assets amounting to Rs1.298 trillion as of December 31, 2017 while the gross written premium collected during the year 2017 was Rs308 billion.

For the year 2018, the life insurance sector has underwritten premium of Rs225.7 billion and non-life insurance sector has recorded premium amounting to Rs100.4 billion. Out of total assets of the insurance industry, life insurance sector owns assets amounting to Rs1,267 billion while the non-life insurance sector owns assets amounting to Rs241.7 billion.

Insurance industry assets base as of December 31, 2018 (amount in trillions)



Life and non-life insurance premium (amount in billions on vertical axis)



Licensing and Approvals

During the year, SECP granted authorization to conduct window takaful operations to two non-life conventional insurers, and one life conventional insurer. The new authorization raised the total number of window takaful operators to 28, including six life insurers and 22 non-life Insurers. Moreover, this year SECP approved 103 new life insurance products and supplementary riders.

Policy Reforms

Review of bancassurance regulatory framework

The SECP, to strengthen the bancassurance segment, has initiated a review of Bancassurance's regulatory framework with special focus on market development and protection of policyholders. In this regard, consultations were conducted with all stakeholders including banks, insurance companies and dispute resolution forums. Stakeholders has proactively provided input that is under consideration and will be considered while proposing amendments to the Bancassurance Regulations, 2015.

Exemption of sales tax from health and life insurance

The SECP has taken up the issue of imposition of sales tax on life and health insurance with provincial revenue authorities. From June 30, 2018 onwards, the Sindh Revenue Board withheld exemption from sales tax on life and health insurance while Punjab Revenue Authority (PRA) also levied sales tax on these segments. These measures were perceived as counterproductive for growth of insurance industry. The industry association raised the issue with SECP Policy Board and submitted a proposal to exempt life and health insurance from sales tax. SECP tookup the matter with provincial governments and subsequently the Sindh Revenue Board issued notification to exempt life and health insurance from sales tax until June 30, 2018. Efforts are underway to obtain exemption on permanent basis.

Draft directive on cybersecurity framework for insurance sector

In order to make IT systems of insurers and their partners secure and resilient, SECP had proposed a draft of Directive on cybersecurity framework for the insurance sector for stakeholders' consultation. Consultation with insurance industry is underway and SECP would issue comprehensive guidelines in this regard.

National Financial Inclusion Strategy (NFIS) on insurance (NFIS – TCI)

As an active member of Technical Committee on Insurance (NFIS – TCI), SECP is actively pursuing with relevant parties for revocation of stamp duty from insurance and to remove regulatory impediments with respect to sale of protection insurance products through banks. SECP also making efforts for promotion of insurance distribution through digital platforms.

Implementation of IFRS – 17 Insurance Contracts

The SECP, in consultation with the insurance industry and ICAP, is working for implementation of IFRS – 17 Insurance Contracts by replacing IFRS- 4. The SECP is also formulating guidelines for insurance industry on implementation of IFRS – 17.

General takaful accounting regulations

SECP had issued the draft General Takaful Accounting Regulations that aimed at providing principles of accounting and reporting for general takaful, window takaful operators. The new regulations will be notified after due legislative process.

Proposed amendments to Motor Vehicles Act, 1939

Motor Vehicles third party liability insurance offers insurance protection against death and bodily injury to victims of road traffic accidents or their legal heirs. The law provides compensatory remedy for all such accident victims as the provisions contained in the saved Chapter VIII of the Motor Vehicles Act, 1939, makes it compulsory for all the motor vehicles owners to have motor third party liability insurance cover. The compensation limit of Rs20,000 prescribed for death or bodily injury under the existing saved Chapter VIII of the Act is a meagre amount which needs to be enhanced. Moreover, the existing procedure for determination of the liability through courts is so lengthy, costly and cumbersome. Therefore, SECP has 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 the same to all the provincial governments to take them on board.

Amendments proposed to the law include

- 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's order and regardless of who 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;
- To develop deterrence against violations of carrying bogus or fake insurance policies by increasing level of penalties.
- Effective implementation of the proposed amendments to the Motor Vehicles Act, 1939 would help in achieving objectives such as:
    - Increase in revenues to the national exchequer;
    - Contribution towards insurance penetration in the country;
    - Immediate availability of indemnity to victims of road accidents (in case of bodily injury) and their legal heirs (in case of death of victims).

These proposals were completed after consultation with all stakeholders, duly vetted proposed amendments were submitted to Ministry of Finance with a request to take up the legislative process with Ministry of Law and Justice.

Future Outlook

The SECP is committed to transform the insurance industry into a financially sound and technologically driven robust industry. SECP envisioned to follow a balanced and phased-manner approach to encourage organized development of insurance markets. Following are the future plans to meet the above purpose:

- Amendments to Insurance Ordinance 2000 to revamp the overall regulatory regime for Insurance sector;
- Introduction of Regulatory Sandbox for promotion of Insurtech companies and microinsurance through digital channels;
- Introduction of regime for promotion of digital insurance and development of alternative distribution channels;
- Introduction of dedicated microinsurer regime for the promotion of Microinsurance;
- Notification of a Cybersecurity Framework for insurance sector;
- Development of Centralized Insurance Repository for life insurers in collaboration with CDC for providing the facility of holding information of insurance policies in an electronic form.
- Introduction of Education Continuation Insurance Schemes for higher education in collaboration with HEC.

ISLAMIC FINANCE

Overview

As of June 30, 2019, the Shariah compliant assets of NBFI sector of Pakistan were Rs340.03 billion which represents 29.9% of the entire NBFI sector. Total asset size of mutual funds is Rs577.64 billion of which the share of Shariah compliant mutual funds is 39%. Since 2010, growth of Shariah compliant mutual funds is 892.59% as compared to 64.11% for conventional mutual funds. Asset size of pension funds is Rs26.498 billion of which the share of Shariah compliant pension funds is 64%.

Takaful's share in the overall insurance market is also increasing each year. In 2016, share of takaful in terms of gross premium was 6.9% of the total industry premium, compared to 10.22% in the year 2018. Out of total 542 companies listed on PSX, around 250 are Shariah compliant companies, which is 46% of the PSX listed companies. As of December 31, 2018, in corporate debt market, the total value of outstanding sukuk is Rs498 billion which represents 77% of the total corporate debt.

Regulatory Framework

In compliance with the requirements stipulated in Article 38(f) of the Constitution of Pakistan for elimination of riba and Islamization of economy, SECP has been taking a number of measures and initiatives for the promotion and development of Islamic finance.

A specific provision for regulating and facilitating the growth of Shariah compliant financial products and services has been incorporated in SECP Act, 1997. Furthermore, provisions for certification of Shariah compliant companies, Shariah compliant securities, requirement of Shariah compliance, Shariah audit and Shariah advisory have been added in the Companies Act, 2017. These enabling provisions allowed SECP to issue Shariah Advisors Regulations, 2017 and Shariah Governance Regulations, 2018.

The SECP has also approved Regulations for governing Shariah compliant trading platform at PMEX for commodity Murabahah transactions. Shariah Advisory Board (SAB) has granted its approval for Murabahah share financing and launching of Shariah compliant trading counter at Pakistan Stock Exchange.

SECP regulated Islamic finance sectors

- Shariah compliant companies
- Shariah compliant securities
- Modarabas
- Takaful operators / windows
- Islamic non-bank financial institutions
- Islamic mutual funds/pension funds
- Islamic REITs
- Islamic based business transactions at PSX and PMEX.

Regulatory framework for Islamic segment of financial capital market

Shariah Governance Regulations, 2018 are holistic and comprehensive regulations catering for almost all areas relevant to Islamic based business operations/transactions of entities/companies within the regulatory ambit of SECP. These include Shariah advisory function, Shariah compliance, internal and external Shariah audit, Shariah screening of corporate entities and non-Shariah compliant investments. Implementation and compliance with these regulations will contribute towards soundness and stability of the companies and Islamic financial system of the country.

The inclusion of additional disclosure requirements to Schedule-IV of Companies Act, 2017 for listed companies is the fundamental source for assessing Shariah compliance of companies through application of Shariah screening criteria stipulated in the Shariah Governance Regulations, 2018. The certification mechanism for the Shariah compliant companies and securities embedded in these regulations will contribute towards development of public confidence in Islamic products and services and increased financial inclusiveness. During the fiscal year 2018-2019, two listed companies have been certified as Shariah compliant under Shariah Governance Regulations, 2018.

Registration of shariah advisors

The fit and proper criteria and basic qualifications and experience for Shariah Advisors have been specified in Shariah Advisors Regulations, 2017. Until June 30, 2019, ninety-seven Shariah advisors had been registered with SECP including four private limited companies for providing Shariah advisory services. The SECP maintains a list of registered Shariah advisors on its website to facilitate Shariah compliant companies and other entities to appoint registered Shariah advisors.

Research, training and capacity building

SECP has signed memorandum of understanding (MOU) with the three Centers for Excellence in Islamic Finance (LUMS, IBA & IM Sciences) to join hands for the noble cause of promoting Islamic finance education, training, research and development. A MoU was also signed with Islamic Research and Training Institute (IRTI) which is a research wing of Islamic Development Bank. The MOU covers areas of mutual collaboration in developing programs for training and education in Islamic finance, facilitating the use and exchange of resources, relevant academic information, events calendar, materials and technical expertise necessary for the development of training and education in Islamic finance.

Harmonization and standardization

In order to achieve high standards of harmonization and standardization in the business operations of Islamic financial institutions and Shariah compliant companies/entities, the SECP has adopted seven Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). As a member of Islamic Financial Services Board (IFSB), Islamic Finance Department has been actively providing feedback on IFSB surveys, exposure drafts of standards and sectoral reports relating to Islamic capital market, Takaful sector, risk management and investor protection regime. These feedbacks are used for the compilation of data for global comparison. IFSB standards and principles are incorporated where required in the SECP regulations in accordance with local Islamic capital market environment.

RISK MANAGEMENT

The reduction of systemic risk is one of major SECP's objectives of securities regulation, along with investors protection and making markets fair, efficient and transparent. The SECP's Risk Management department mandated to monitor, mitigate and manage systemic risks. In 2018-19, the SECP has taken a range of measures to identify and address factors that may result in systemic risk in the market. Details of these measures are as follows:

Meeting of council of regulators

The SECP and SBP have signed a letter of understanding to establish the Council of Regulators. This will serve as a forum to deliberate on issues related to systemic risk, particularly those having cross market and stability implications, and would suggest possible arrangements for crisis preparedness and issue coordinated response. During the FY 2018-2019, second meeting of the Council of regulators held in February 2019. The meeting, among other things, discussed performance, trends and developments of financial sector.

Risk profiling and stress testing

SECP in collaboration with the NCCPL 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. The estimated amount at risk i.e. expected default amount has been determined and compared with the default management resources available to NCCPL i.e. cash margin, bank credit line and Settlement Guarantee Fund "SGF". The average amount at risk observed from July 02, 2018 to June 28, 2019 was Rs. 2.51 billion against the average outstanding buy of Rs. 11.35 billion that translates into 23% amount at risk on average basis.

Risk monitoring and reporting

A comprehensive risk monitoring and reporting mechanism is functioning at NCCPL. The SECP also has a dedicated team of professionals in Securities Market Division for risk monitoring. The SECP also has internal risk committee to deliberate upon risk related issues and propose measures/actions for mitigation of anticipated systemic risk.

The SECP also prepares a daily risk report that focuses on risk factors such as trend, leverage, settlement levels, settlement to trade ratio, exposures, concentration, collateral composition, stress test results and portfolio investments etc. During the period under review, average, minimum and maximum settlement values and settlement to trade ratio remained as under:-

	Settlement Value (In billion rupees) as per pay and collect	Settlement to trade ratio
Average	1.788	61%
Min	0. 786	46%
Max	8.012	82%

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. Leveraged open positions were closely monitored by systemic risk team and any unexpected hike in a position was promptly analyzed. During the year under review average, minimum and maximum leveraged open position remained as below:-

	MTS Open Position	MF Open Position	DFC Open Position	Total Open Position
Average	4.187	3.095	8.539	15.822
Min	1.878	2.118	4. 759	9.052
Max	6.237	4.110	15.065	24.642

Furthermore, the given below comparative analysis of total leveraged position shows on average significant drop since 2016-2017 possibly due to substantial decrease in stock prices and low market activity.

	2016-2017	2017-2018	2018-2019	%Change compared to 2016-2017	%Change compared to 2017-2018
MTS Open Position	7.728	4.370	4.187	-46%	-4%
MF Open Position	3.546	4.315	3.095	-13%	-28%
DFC Open Position	12.788	10.055	8.539	-33%	-15%
Total Open Position	24.061	18.740	15.822	-34%	-16%

Simulations and assessments to identify alarming situation and potential risks

The SECP, in collaboration with NCCPL has conducted several simulations and assessments including stress tests and reverse stress tests. These tests were conducted under different stress scenarios to assess potential risks, sufficiency and resilience of margins, settlement guarantee fund and other resources of clearing house.

ADJUDICATION, PROSECUTION AND CIVIL LITIGATION

The Adjudication function performed by the Commission is in the nature of quasi-judicial proceedings and based on principles of natural justice. It is in accordance to the due processes envisaged under Article 10A of the Constitution of Islamic Republic of Pakistan, 1973. The Commission, to attain the objective of transparency and impartiality, has recently established an independent Adjudication Division with the mandate to perform adjudicatory functions as well as to manage the litigation of the Commission.

The Commission has also formed and approved exclusive Adjudication Manual to streamline the working of new Division. The manual fixes a period of 85 days for conclusion of one adjudication proceedings. These stipulated timelines of adjudication proceedings largely due to involvement of multiple transactions, extensions / adjournments that are normally granted to regulatees explain their position at best before passing final orders. In exceptional circumstances, ex-parte orders are also passed when respondent is not traceable or not submitting any response despite multiple hearing opportunities.

The aggrieved party against an adjudication order has statutory remedy of appeal under section 33 of the SECP Act, 1997 before the Appellate Bench and before the High Court under section 34 of the SECP Act, 1997.

The Prosecution and Civil Litigation Department represents and defend SECP before the courts of law. During 2018-19, it successfully managed cases pending before the courts in their respective jurisdictions, including preparation and finalization of pleadings.

The department took prompt and transparent action to safeguard the Commission's regulatory actions. This year 256 new court cases received whereas 101 Cases disposed off. SECP's Law officers handled 230 Cases whereas 26 cases were assigned to outside Counsels.

Fiscal Year	Allocated Budget	Actual Utilized	Savings (%)
2017-18	28 million	17.40	10.60 (38%)
2018-19	28 million	13.73 (May-19)	14.00 (50%)

The department, on the recommendations of the Commission filed three Criminal Complaints without hiring services of external counsels. The Litigation Department also filed 9 winding up petitions through its own law officers.

Pending Litigation – As on 25-Jun-2019								
Sr	Region	Total no. of cases	Year	New cases filed during year	Stay	Disposed off	Counsel appointed	Law officer
1	Islamabad	160	2018 - 19	52	2	23	1	51
2	Lahore	526		110	6	40	11	99
3	Karachi	631		89	19	38	12	77
4	Peshawar	33		5	-	-	2	3
		1350		256	27	101	26	230

ENFORCEMENT

During FY 2018-19, SECP consolidated and augmented its efforts to ensure compliance with the regulatory laws by the corporate sector and capital market participants. The extended efforts covered a range of activities such as show causes, explanations, onsite inspections, offsite reviews, enquiries, investigations and specialized inspections. The ultimate objective was to implement SECP's regulatory framework in its true spirit.

Capital Market

In 2018-19, the SECP's departments conducted seven investigations, out of which three enquiries have been completed and appropriate order were issued. Summary of actions taken during the year are tabulated below:

Enquiries conducted/initiated against market participants					
	2015	2016	2017	2018	2019
Market Manipulation	2	6	9	4	5
IPO/Book Building	0	1	2	0	0
Insider Trading	3	10	9	2	2
Total	5	17	20	6	7

Criminal Prosecution

Cases referred for criminal prosecution	
Violation	Number of cases
Insider trading	3
Market manipulation	1
Total	4

Prohibitory Orders

Seven prohibitory orders were issued against individuals under section 143 of the Securities Act, 2015.

Takeovers

During the period under review, public announcement for purchase of shares by the acquirers was made in ten cases, of which takeover process has been completed in four cases. Public announcement of intention was withdrawn in three cases and the remaining cases are in process.

Adjudication

The Adjudication Department of SECP's Securities Market Division has exclusive mandate to oversee adjudication of capital market's participants, handle investor claims against defaulting brokers and investors' complaints related to capital market. The department held several meetings with the Fund Committees of the LSE and ISE that resulted in expeditious settlement of claims against six defaulting brokers.

Below is the breakdown of enforcement actions initiated during 2018-2019:

<table>
<tr><th>SCNs Issued</th><th colspan="4">Total Orders Issued</th><th>Penalties imposed</th></tr>
<tr><td rowspan="3">77</td><td colspan="4">60</td><td rowspan="3">Rs9,070,000</td></tr>
<tr><td>Warning Orders</td><td>Penalty Orders</td><td>License Cancellation/ Refusal Orders</td><td>Non-Punitive Actions' Orders</td></tr>
<tr><td>26</td><td>28</td><td>03</td><td>03</td></tr>
</table>

Non-Banking Finance Companies (NBFCs)

Offsite examination and enforcement

The SECP constantly examines the financial health and regulatory compliance level of non-bank financial companies (NBFCs), notified entities (NEs) and modarabas. These periodic inspections is based on 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 modarabas) is conducted on a semi-annual basis. The findings are taken up with respective entities through compliance and warnings letters and an Adjudication Recommendation Note (ARN) is issued in case of major violations / observations. Statistics of offsite examinations conducted during the last two years are as follows:

Category of entity	Total number of offsite reviews conducted	
	2017-18	2018-19
*Asset management companies	38	37
Investment advisors	4	6
*REIT management companies	4	4
*Private equity	1	2
Investment banks	16	14
Non-bank microfinance companies	40	49
Leasing companies	14	16
Modarabas	54	56
Total	171	184

The offsite reviews of REIT Management Companies, Private Equity and one asset management company are conducted on annual basis.

During FY 2019, show cause notices and orders were issued to different AMCs and modarabas in respect of violations of various regulations of the AML and CFT Regulations 2018. Penalties were also imposed on the entities because of non-compliance with the AML and CFT Regulatory Framework.

Onsite inspection

During FY2019, regular inspection of five entities (i.e. all asset management companies having 75 Mutual Funds and 25 Pension Sub Funds) and 27 AML and CFT related thematic inspections were conducted as compared to 13 entities inspected during FY2018. Further, inspection of one entity was in progress as of June 30, 2019.

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

Enforcement actions	2017-18	2018-19
Compliance letters	377	352
Warnings/directions	13	6
Show cause notices	5	19
Orders	4	18
Total	399	395

Corporate Sector

To safeguard interest of minority shareholders and other stakeholders, SECP keep regular surveillance and monitoring of listed and non-listed companies.

Offsite surveillance and monitoring

During the financial year 2018-19, the following actions were taken in respect of enforcement of Public Sector Companies (Corporate Governance) Rules, 2013:

- Identification of non-compliant public sector companies and issuance of demand notices to 99 such companies;
- Examination of Statement of Compliance (SOC) filed by 40 public sector companies;
- Identification of directors of public sector companies having directorship in more than five companies and issuance of notices to 19 companies; and
- Identification of 103 dormant / non-compliant public sector companies liable to be wound up under section 304 of the Act and issuance of initial letters to such companies.

Examination of annual audited financial statements

During the year, SECP examined 143 annual audited financial statements of public sector companies, non-listed companies and companies registered under sections 42 and 43 of the Act. Where required, explanations were sought to check compliance with various provisions of the Act and administered laws and proceedings were initiated in cases of violations.

Inspection of books of accounts

During the year, inspections of books of accounts of 55 companies under section 221 of the Act were completed. These included cases pertaining to high-risk section 42 companies selected for inspection as per the criteria provided in AML/CFT Guidelines for non-profit organizations (NPOs).

Dissolution of companies

During the year under review, 723 companies have been struck off the register under section 425 of the Act.

Inspection and supervision

Based on the risk profiling criteria provided in the AML/CFT Guidelines for NPOs, a total of 47 high-risk section 42 companies were identified, and onsite inspections were carried out under section 221 of the Act. Licenses of 10 such companies have been revoked and revocation proceedings are underway in respect of 15 companies. Further, penalties have been imposed and/or warnings issued in 12 cases, and adjudication is in progress in remaining cases. The second batch of nine high-risk section 42 companies has been identified for similar action, and inspection orders have been issued. Onsite inspections have been completed in respect of seven companies.

Adjudication

Using NACTA's online database of Fourth schedule that lists persons proscribed under the Anti-Terrorism Act, 1997, the Commission identified 14 such persons appearing in 13 companies in various capacities, and initiated penal action against such persons. Another person was identified as appearing on the United Nations Security Council's (UNSC) list of designated persons under Resolution 1267, as the chief executive of a company, and disqualification order under section 172(1)(o) of the Act has been issued.

A summary of total number of actions taken against the companies and their statutory auditors on account of various defaults is given below:

Particulars	2018-19
Show cause proceedings initiated	138
Warnings issued after examinations	23
Orders passed	78
Investigations u/s 256 & 257 of Act	3
No of companies struck off u/s 425 of Act	723
Licenses revoked u/s 42 of Act	10

Listed Companies

During FY 2019, the department examined 231 annual audited financial statements of listed companies and their associated undertakings having intercompany transactions. Where warranted, explanations were sought to check compliance of 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 over the last three years:

Regulatory actions taken during the last three years			
Particulars	2017	2018*	2019
Examination of accounts	986	568	231
Warnings against examination issued	132	78	42
Show cause proceedings initiated	488	161	258
Cases concluded through orders & warnings	430	182	143

* From 2018 onwards, the department increased its focus on risk-based supervision of listed companies, whereas unlisted companies, which are not associated or subsidiaries of listed companies, have been excluded from its focus.

Moreover, a total 143 regulatory actions taken against the companies, their directors and auditors under various provisions of the Act. details of preceding three years is given hereunder:

Break-up of regulatory actions taken during the last three years			
Particulars	2017	2018	2019
Inter-corporate financing	5	7	6
Powers of directors	6	4	10
Making false incorrect statements	17	13	9
Actions against auditors	12	3	8
Non-preparation and submission of consolidated financial statements	2	5	1
Irregularities in provident fund	24	10	5
Irregularities in utilization of security deposits	2	-	3
Authentication of balance sheet	1	-	-
Non/ late holding of annual general meeting	37	10	13
Meetings of board of directors and disclosure of interest	2	9	7
Enforcing compliance with the provisions of the Act	87	28	12
Circulation of quarterly accounts	93	31	25
Late filing of cost audit report and non-submission of applications by companies for appointment of cost auditors	6	4	-
Application for revision and review of orders	3	8	2
Others (winding up orders, inspection and investigation orders, non-maintenance of website etc.)	133	50	42
Total orders	430	182	143

Inspections/ investigations

In order to strengthen surveillance and monitoring of corporate sector, department conducted number of inspections and investigations of listed companies during the year. Some of grave violations identified included syphoning of assets by directors, unauthorized lease of entire undertaking/factory, benefiting directors of private companies at the cost of shareholders of listed companies, depriving shareholders of reasonable return, unauthorized sale/misappropriation of significant assets, misstatement in financial statements, non-maintenance of proper books of accounts etc.

Inspections/investigations conducted during the last three years			
Particulars	2017	2018	2019
Inspections	6	9	5
Investigations	5	2	*

* Five investigation proceedings initiated during the year, of which three investigations are in process. Whereas, stay order granted by Court in respect of two investigations.

Insurance Sector

Offsite supervision function

The SECP has a dedicated department entrusted with task of offsite supervision of the insurance sector. The offsite supervision department monitors and examines all 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 were prepared. Events of non-compliances were reffered for adjudication. The summary of offsite inspections is presented below:

Nature of actions/ correspondence	Numbers
Offsite reports completed	65
Adjudication recommendation notes (ARNs)	63
Warnings	53

Onsite inspections

The onsite inspection of regulated insurance entities is conducted in accordance with the annual inspection plan,developed on the basis of financial strength, compliance level, business performance, and risk assessment criteria of companies. Besides annual plan, inspection were also conducted on the recommendations of SECP's insurance division. The details of onsite inspection function given below:

Nature of actions/ correspondence	Numbers
Onsite inspections / investigations conducted	15
Adjudication recommendation notes (ARNs)	21
Warnings	12

No. of show-cause notices issued	No. of orders passed	Amount of penalty imposed (In million rupees)
82	67	6.16

Redressal of policyholders' grievances

The SECP disposed of 555 complaints of aggrieved policyholders against the insurers, whereby the insurers paid an aggregate compensation of Rs94.883 million to the policyholders on account of settlement of their grievances. During the year under review, the SECP forwarded 169 complaints of policyholders to the Small Disputes Resolution Committees (SDRCs) for provision of speedy and inexpensive relief through amicable resolution. Further, in 277 cases of policyholders' complaints where amount in dispute exceeded the pecuniary limits of SDRCs, the cases were referred to the Federal Insurance Ombudsman for redressal of grievances.

INTERNATIONAL RELATIONS

International Organization of Securities Commissions

The SECP is an active member of the International Organization of Securities Commissions (IOSCO), which is the leading international policy forum for securities regulators. The SECP was re-elected to the Board for a fourth consecutive term from the Asia Pacific region. The SECP is also engaged 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.

IOSCO Standards Implementation Monitoring (ISIM) program

SECP was a member of the Review Team (RT) of the first IOSCO ISIM program on secondary and other market principles. The ISIM exercise allowed IOSCO to present a global overview of implementation of the principles by members and gather useful feedback on the subject. In the first ISIM program, SECP completed assessment of five jurisdictions under the program and submitted its review report to the IOSCO Assessment Committee (AC). The review report was published in February 2019.

SECP has indicated its interest to join the RT for the second IOSCO ISIM project on IOSCO Principles Related to the Regulator (Principles 1-5).

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 to promote effective international cooperation for information sharing among members for strengthening insurance supervisory regimes. SECP is a member of the Association that now represents insurance supervisors from more than 200 jurisdictions, representing 97% of the world's total insurance premiums.

Multilateral Matters

World Bank assessment under ROSC program

The Report on the Observance of Standards and Codes (ROSC) is a World Bank and IMF initiative and a prominent component of efforts to strengthen the international financial architecture. During the year, World Bank assessed Pakistan's Corporate Governance under its ROSC program. WB report published in March 2019 observed major improvements in corporate governance practices in Pakistan with certain gaps that the SECP need to address. The SECP proactively addressed most of the gaps identified through appropriate provisions in the Companies Act 2017 and amendments in the legal framework. The report, based on SECP's self-assessment, was shared with World Bank for its independent review and assessment.

As identified under the ROSC program, SECP has also completed self-assessments of central counter party, securities settlement system, central securities depositories and responsibilities of regulatory authorities under the Principles for Financial Market Infrastructures in Pakistan. These self-assessments shall also serve as the basis for future World Bank review under its ROSC program.

World Bank good practices for financial consumer protection

SECP has conducted self-assessment against World Bank's good practices for financial consumer protection in coordination with the State Bank of Pakistan (SBP). The findings of said assessment are being reviewed and SECP intends to share the same with World Bank through SBP for review of the self-assessment.

United Nations Convention Against Corruption (UNCAC) - country review of Pakistan

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 of Pakistan (NAB). SECP addressed the gaps identified by the assessors in the legal framework through improvements in the legal framework relating to chapter 3 and 4 of the convention concerning criminalization and law enforcement & international cooperation.

Cooperation with Federal Board of Revenue (FBR)

Every year, SECP, forwards its recommendations for implementation through the Finance Bill to the Federal Bureau of Revenue (FBR), that are considered appropriate to foster development of capital markets, promote long-term savings culture and remove fiscal irritants. This year's proposals primarily aimed to address the following areas:

- Enhance ease of doing business
- Promote long-term saving culture through development of institutional investors- Mutual Fund, Voluntary Pension Schemes and Private Funds
- Develop the capital market and the Real Estate Investment Trusts; and
- Other proposals to remove irritants and provide a level-playing field for sectors under SECP's regulatory ambit.

Future Outlook

Keeping in view the importance of being an active member of international bodies recognized as global standard setters for regulators, SECP will submit application for becoming a signatory to IOSCO's Enhanced Multilateral Memorandum of Understanding (EMMoU) which will ensure enhanced information sharing and cooperation between IOSCO members.

During 2019-20, SECP will also endeavor to complete validation process for SECP's accession to the IAIS MMoU. Going forward, SECP intends to work in closer cooperation with FBR on matters relating to SECP's regulated sectors.

Further, SECP will endeavor to meet the deadlines regarding the ongoing assessments within the next financial years.

ANTI-MONEY LAUNDERING

The SECP is committed to implement the measures set out in the FATF standards on AML/CFT within the SECP's regulated financial sector inter-alia the stockbrokers, commodities brokers, NBFCs and Modarabas, the Insurers/Takaful operators and corporate NPO's, to safeguard them from being used by money launderers and terrorist financiers for illicit purposes.

FATF action plan and the mutual evaluation of Pakistan

At present, Pakistan is undergoing two parallel FATF monitoring processes, the Pakistan's mutual evaluation by Asia Pacific Group (APG) against FATF 40 recommendations and FATF Action Plan comprising of 27 Actions, by the International Co-operation Review Group of the APG. In line with the government's agenda of combating money laundering and terror financing, the SECP has taken effective measures to:

- Undertake assessment of the "technical" compliance with the FATF Recommendations and the "effectiveness" of the implemented AML/CFT regime, based on the FATF's assessment methodology.
- Work with national stakeholder's inter-alia FMU, SBP etc. and international assessors Asia Pacific Group for mutual peer review and evaluation of SECP's regulated financial sector.

Moreover, the SECP was part of the team led by NACTA that carried out National Terrorism Financing Risk Assessment and assessed TF risk for its regulated Securities Market, NBFCs, Modarabas, Insurance and NPO sector.

Regulation, guidelines and directives

Following the promulgation of the SECP AML/CFT Regulations 2018, the SECP issued comprehensive guidelines for regulated financial institutions on AML/CFT obligations in September 2018 to help regulated persons in developing an effective AML/CFT risk assessment and compliance framework. The SECP also issued guidelines for not-profit organizations (NPOs) on ML/TF vulnerabilities, risks and best practices to counter TF.

SECP has implemented the Targeted Financial Sanctions under United Nations Security Council Resolution on its regulated sectors requiring identification, freezing, and confiscation of terrorist assets. In order to further strengthen the AML/CFT Regime Circular No.16 of 2018 was issued, requiring all the companies to maintain up-to-date information relating to their ultimate beneficial owners. Moreover, SRO.245 (I)/2019 was notified establishing the reporting obligations on regulated persons.

Outreach and awareness raising

Capacity building and outreach is a regular feature wherein extensive awareness sessions have been conducted in Karachi, Lahore and Islamabad for regulated persons on AML/CFT obligations and implementation of the AML/CFT Regime. Frequently Asked Questions have been placed on the website that further explain the general requirements of the legislation to help regulated persons in applying national AML/CFT measures. Investor awareness in the area of AML/CFT has been enhanced through updating the JamaPunji portal with AML/CFT content. Standees on KYC/CDD have been set up at IAP, PSX, PMEX, CDC, NCCPL and MUFAP to impart awareness amongst investors on their KYC/CDD obligations.

Risk-based supervisory approach

SECP has adopted a risk based approach to supervision and monitoring in the area of AML/CFT. During last year, inspections focusing on AML/CFT and TFS - UNSCRs compliance under SECP AML/CFT Regulations, 2018 were conducted in case of 72 Securities Brokers, 27 NBFC, 13 Insurance Companies and 55 High Risk NPOs, and remedial actions/ sanctions were imposed accordingly. The objective of the AML/CFT sanction regime is to encourage compliance and promote change in behavior. Significant improvement in filing of Suspicious Transactions Reports with FMU has been reported in past one year since the regulations were promulgated.

SECP endeavors to enforce world's best practices, legislative framework and apply robust AML/CFT regime within its regulated sectors.

INVESTOR EDUCATION

Through its investor awareness and protection program, the SECP has been interacting with audiences to educate them on risk and scope of capital market, insurance and non-banking financial sectors. The emphasis during these sessions remains on awareness to protect the public from financial frauds and scams.

During FY 2018-19, the Investor Education Department signed seven MOUs with private and public sector universities and institutions.

In accordance with the MOUs, the SECP conducted 110 interactive awareness seminars in multiple cities, including Islamabad, Lahore, Karachi, Peshawar, Quetta, Swabi, Gujranwala, Faisalabad and Multan. These events included classroom awareness sessions, mentoring for women entrepreneurs and start-ups, incentives-based stock trading competitions between groups of university students etc. Awareness sessions were also conducted for far-flung areas such as Skardu, Khuzdar and Gilgit through video conferencing.

In addition, advance level workshops were conducted for professional bodies, business community and budding entrepreneurs including Association of Chartered Certified Accountants (ACCA), National Incubation Center (NIC) Islamabad, Women on Board- Rawalpindi Chamber of Commerce and Industry (RCCI), Lahore Chamber of Commerce and Industry (LCCI), TiE Islamabad Chapter, Rotary Metropolitan Club, session on “Fintech” in collaboration with Ignite, S&P Global in collaboration with Institute of Financial Markets of Pakistan (IFMP).

Major areas covered through these events were Code of Corporate Governance, Companies Act 2017 and Company Incorporation, risks and fraud prevention tips related to capital market, futures market, insurance, mutual funds, Modarabas etc. Over 4,000 participants benefited from attending these sessions during FY 2018-19.

Use of digital media

As a premiere digital initiative, SECP developed a series of short videos for educating public through its investor education portal and social media pages. The videos have been prepared to provide basic information about company incorporation, anti-money laundering and countering financing of terrorism AML/CFT, investment risks, how to protect oneself from Ponzi Schemes, financial and market frauds and interest rate risks, etc.

Launch of book on financial literacy

This year SECP also launched a book titled “Savings and Capital Markets” to educate new investors, students and the public in general. The digital version of the book was also placed at SECP’s website and investor education portal thereby putting it in the reach of the common man at no cost.

Additionally, the 8181 SMS service was used efficiently to send more meaningful, educational and regular public awareness messages focusing on 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.

4th Inter-University Stock Trading Competition

The SECP’s 4th Inter-University Stock Trading Competition held from October to December of 2018. Total 41 universities registered for the competition. The winning universities from the Islamabad capital territory were Quaid-e-Azam University, Virtual University Islamabad and the National University of Modern Languages. From the Punjab region, the winning institutions were the University of Lahore, LUMS and the University of Veterinary and Animal Sciences (UVAS), Lahore. Sindh region’s winning universities were KASBIT Karachi, University of Karachi and Karachi School for Business and Leadership and the winners from the Khyber-Pakhtunkhwa region were COMSATS and GIK. The competition provided participants with the opportunity to learn about trading, applying sophisticated money management techniques and taking calculated risks in a simulated environment.

GRIEVANCE RESOLUTION

Overview

The SECP regulates over one hundred thousand companies that operate across the corporate sector, insurance and capital markets. The public has facility to submit complaints and queries through various channels including an investor web portal, email, a dedicated toll free number, and postal service. During FY 2018-19, the SECP handled a total 5,417 complaints and 27, 847 queries. Of the total complaints, 4,982 were closed and prompt guidance was provided on all queries. The pendency ratio is 1 percent only. To address these complaints and queries swiftly and satisfactorily, the SECP has skilled and trained human resource and developed a state of the art and digitally integrated service desk management system (SDMS). Further, an easy to use mobile application has also deployed for facilitating the public.

In addition, SECP has been a front-runner in facilitating the public and delivering issue resolution to aggrieved investors through the Prime Minister's Delivery Unit (PMDU) through its Pakistan Citizen's Portal. The SECP regularly shares the requisite statistics of complaints and queries with the Federal Ombudsman for their record also.

Common nature of complaints

In regulatory affairs, the highest number of complaints i.e., 25% related to registration of companies wherein people had faced difficulties in incorporation of a company, name reservation, post incorporation compliance requirements etc. This was followed by 16% complaints relevant to the insurance sector; mainly about refund of premium/policy cancellation, bancassurance, and dispute over policy claims. Of the total, 11% complaints were about corporate supervision, mostly related to transfer of shares, dispatch of shares, signature verifications etc., 3% complaints related to capital markets and 2% were about AMCs, mutual funds and RIETS etc.

IT and eServices related complaints amounted to 22%, 18% and respectively. The most common complaints and queries were about procedures of online filing, issues related to downloading of form, online payment, browser, search etc.

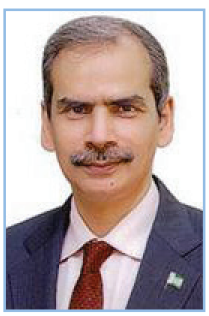
Future Outlook

- Repositioning Investor Education Strategy to leverage technology and digital media for more effective outreach.
- Align the SECP investor education plan with the industry wide survey being conducted by PSX and CDC with the primary objective of evaluating investor confidence and gaps in investor awareness strategy.
- Expanding investor education from existing segments to
  - Armed forces
  - Government institutions
  - Business Associations
  - Incubation Centers and Startups
  - Entertainment and Sports
- Launching Investor Education Video Series on social media channels
- Radio programs from educational channels managed by various universities and through FM/Radio Pakistan

SECURITIES & EXCHANGE POLICY BOARD

MR. KHALID MIRZA
Chairman, Securities and Exchange Policy Board

EX OFFICIO MEMBERS



Mr. Naveed Kamran Baloch
Secretary, Finance Division

Sardar Ahmad Nawaz Sukhera
Secretary, Commerce Division

Mr. Arshad Farooq Faheem
Secretary Law, Justice and Human Rights Division

Mr. Aamir Khan
Chairman, SECP

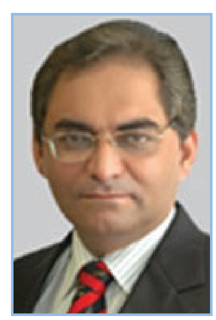
Jameel Ahmad
Deputy Governor
State Bank of Pakistan

PRIVATE SECTOR MEMBERS

Mr. Sadeq Sayeed
Member

Mr. Adnan Afridi
Member

Mr. Veqar ul Islam
Member



Syed Asad Ali Shah
Member

The SECP 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, SECP Chairman, and a deputy governor of SBP, nominated by the Governor SBP.

The federal government reconstituted the policy board of the SECP and appointed Professor Khalid Mirza from the private sector members as Chairman of the Board on November 16, 2018. Prior to Professor Khalid Mirza, Mr. Arif Ahmed Khan, the former federal secretary for Finance was the board Chairman since January 10, 2018.

What needs to be done

The Board advised the Commission that all laws and subsidiary legislation should be reviewed, and to suggest amendments to simplify what is needed/essential. The Policy Board directed the Commission to consider a substantial reduction in its fees in order to remove harsh regulatory impediments that hamper growth of financial services and facilitate the ease of doing business.

What are the issues and how to address

The Board constituted (i) the Oversight Committee to look at the regulatory and enforcement actions of the Divisions/Departments of the Commission; (ii) the Regulations Committee to give recommendations on any policy, law, rules and regulations proposed or any amendment in the existing policy, law, rules and regulations, to be made by the Commission; and (iii) the IT & HR Committeee to oversee the HR, IT and Audit areas of the Commission and give recommendations thereon.

Initiatives

The Pakistan Stock Exchange presented to the Policy Board regulatory and policy issues confronting stock market intermediaries and other operators in the market. The Board directed the Commission to proceed expeditiously to implement, the recommendations of the Pakistan Stock Exchange, additionally eliminating the requirement for periodic broker license renewal.

Pakistan Business Council also pointed out various anomalies and difficulties in the Companies Act, 2017, such as section 452, which relates to global register of beneficial ownership of shareholding in foreign companies, section 208 pertaining to party transactions, as well as other provisions. The Board directed that the Commission should proceed with a positive frame of mind and propose the required changes in the law in order to give effect to the suggestions of PBC, as substantially accepted by the Board.

The Policy Board approved a new broker custody regime dividing stock brokers into three categories. Under the new regime, top tier brokers with more than Rs500 million in their brokerage accounts will be allowed to trade shares for themselves and investors along with completing the formalities of clearing and holding shares. However, brokers in the second category with Rs250-500m in their account will have limited rights relating to trading on behalf of investors while brokers under the third category will only trade shares for themselves but would not provide any service to clients.

The Board gave its approval to significant measures in simplifying the regulatory requirements for ease of doing business and promoting the overall growth of the capital market. In order to remove the difficulties/impediments in the buy-back of shares by companies, the following amendments were approved in the draft Listed Companies (Buy-Back of shares) Regulations, 2019: (i) condition relaxed with respect to the company considering buyback to be enlisted as margin eligible securities; (ii) condition relaxed with respect to maintaining paid-up capital of Rs 200 million after buyback; (iii) restriction removed with respect to the sale price of treasury shares to be within 10 percent variance to closing price of a scrip on the day preceding the day of approval of special resolution; (iv) allowing the sale of treasury shares through negotiated market deals; and (v) clarifying responsibilities of the securities broker by requiring acknowledgement of receipt of shares, ensuring timely payments and return of shares, in case of withdrawal of offer for purchase. The Board also recommended to the Commission that the Listed Companies (Code of Corporate Governance) Regulations, 2017 be based on a 'Comply or Explain' approach and only the requirements pertaining to the auditors, appointment of independent /executive/ female directors and audit committee be mandatory.

The Policy Board reviewed the regulatory regime for Initial Public Offerings (IPOs) and appreciated the newly introduced reforms in the Public Offering regulatory framework. The Board took decisions in connection with several matters pertaining to the development and growth of the primary market for issuance of securities, and gave other significant directions to improve the working of the commission, inter alia, directions with respect to the commission's dealings with law enforcement agencies.

The Board granted approval for amendments in the following regulations for implementation of Centralized Know Your Customer Organization (CKO): Amendments in Centralized KYC Organization Regulations, 2017, Amendments in Pakistan Stock Exchange Limited Regulations, Amendments in National Clearing Company of Pakistan Limited Regulations and Amendments in Central Depository Company of Pakistan Limited Regulations. Upon the recommendation of its Regulations Committee, the Board referred several proposed amendments to laws to the Ministry of Finance for necessary amendments. The Board has also advocated reduction in the administrative expenditure made by the commission to make up for any revenue loss after the reduction in regulatory fee.

The Policy Board approved the setting up of a centralized adjudication division in the Commission. This division will be the quasi-judicial arm of the Commission and be entrusted the responsibility for its entire adjudication work pertaining all regulated entities and persons instead of the existing practice of adjudication being carried out separately by various departments/divisions within the Commission. The centralization of adjudication would likely enhance the effectiveness of the Commission, ensure fair and consistent decisions, and minimize any creeping risk of arbitrariness in the discharge of its judicial function. The Policy Board also took up the matter of S.R.O. 1048 (I)/2019 dated September 11, 2019 requiring companies to file a tax compliance certificate. The Policy Board considered this order to be ultra vires and beyond the jurisdiction of the SECP and has directed the Commission to take steps for its withdrawal after taking legal advice.

Future agenda

Comprehensive review of Securities Act, 2019, Futures Market Act 2016 and LLP Act 2017.

To transform SECP as a role-model regulator through end-to-end automation, digitization, transparency and fairness, while delivering a world-class experience to its stakeholders. Digital transformation, end-to-end automation and creation of a state-of-the-art interface for all its regulatees through the program, namely Leading Efficiency through Automation Prowess (LEAP).

Attendance of PB members

During the year, nine meetings of the board were held wherein 76 agenda items and 14 other business items were discussed and decided appropriately. The details of meetings held by the Policy Board during the financial year 2018-19 are as under:

S. No.	Name of member	Number of meetings held	Number of meeting attended
1.	Mr. Khalid Mirza, Chairman	8	8
2.	Secretary, Finance Division	9	8
3.	Chairman, SECP	9	9
4.	Secretary, Law and Justice Division	9	9
5.	Secretary, Commerce Division	9	9
6.	Deputy Governor, State Bank of Pakistan	9	8
7.	Mr. Sadiq Sayeed	8	5
8.	Mr. Farrukh Khan	8	8
9.	Mr. Adnan Afridi	8	8
10	Mr. Veqar ul Islam	8	6
11	Syed Asad Ali Shah	8	8

THE COMMISSION

MR. AAMIR KHAN

Chairman
Corporate Supervision Department (Company Law Division), Adjudication Department, Prosecution and Legal Affairs Division, Support Services Division

Aamir Khan has 30 years of experience in banking and capital markets, covering corporate, investment, SME and institutional banking in Pakistan and Canada. He has served in senior positions at Standard Chartered Bank, Royal Bank of Canada, and American Express Bank Ltd. He is well versed in corporate lending, treasury and credit risk management, and has extensively worked on structured financial products, international trade and cross-border transactions.

Prior to being appointed as a Commissioner, he served as an Executive Director at the SECP, where he headed several departments. He also played a key role in a number of initiatives at the SECP, including the launch of commodity Murabaha at PMEX, agriculture-related initiatives, bringing microfinance companies within the SECP's regulatory ambit, finalizing of laws and improving ease of doing business.

A former Chevening Scholar, he has an MBA degree, as well as an M.Sc. in international banking from the UK. He is also an associate of the Institute of Bankers in Pakistan.

MR. SHAUKAT HUSSAIN

Commissioner
Corporatization and Compliance Department, Insurance Division, Islamic Finance Department

Mr. Shaukat Hussain is a commerce graduate and a fellow member of the Institute of Cost and Management Accountants of Pakistan (ICMAP). He has 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,
Securities Market Division, Information Systems and Technology Department, International Relations Department

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 his appointment in the SECP as Commissioner in March 2018, he was with the Asian Development Bank where he was responsible for all 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 5 years in senior positions, including CFO of an investment bank and the Lahore Stock Exchange.

MR. FARRUKH SABZWARI

Commissioner
Specialized Companies Division, Anti-Money Laundering

Mr. Farrukh H. Sabzwari is an MBA in finance with more than 25 years of professional experience in the capital markets in Pakistan and abroad. Before joining the SECP as a Commissioner in December 2018, he was the CEO of BMA Capital Management, one of Pakistan's largest firms dealing in financial services.

His previous senior management roles include a 7-year stint with Credit Suisse Securities in Singapore as Director APAC Equities Sales from 2010 to 2017. Prior to that, he was CEO at KASB Securities, a Merrill Lynch JV partner in Pakistan, a position he held from 2005 to 2009. He also spent more than 8 years at CLSA, a Citi-owned boutique investment firm, as Country Manager and Head of Sales for Pakistan from 1995 to 2001, and subsequently as VP subcontinent sales in New York in 2001-2003. He completed his Singapore Broker License and Indonesian Capital Market Exams in 2010 and his Series 7 and 63 in New York in 2001

MR. TAHIR MAHMOOD

Commissioner

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 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 around 400 judicial orders. A large number of these orders have been published in the Corporate Law Decisions (CLD), and are regularly referred to by the legal community in their corporate law practice. 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).

** Mr. Tahir Mahmood has completed his tenure as Commissioner, SECP on October 5, 2019.*

** Mr. Zafar Abdullah has completed his tenure as Commissioner, SECP on August 16, 2018*

MR. ZAFAR ABDULLAH

Commissioner

He holds a bachelor's degree in commerce from the University of Karachi, and is a fellow member of the Institute of Chartered Accountants of Pakistan. He did his articles from KPMG Pakistan, and received extensive training in the areas of assurance and audit, financial advisory and corporate advisory. Earlier, he had served the SECP as Executive Director in the Securities Market Division, 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. His last assignment was as Company Secretary and Head of Legal Division with Faysal Bank Limited. Mr. Zafar Abdullah as also served as acting Chairman from July 24, 2017 till assuming the charge by Chairman on May 11, 2018.

Commission's Secretariat

Commission's Secretariat performs the duties and responsibilities of secretarial nature as entrusted to it under the SECP (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 number of Commission's meetings held during the financial year 2018-19 and attended by the Commissioners are as under:

S.No.	Name of Commissioner	Number of Meetings held	Number of meetings attended
1	Mr. Farrukh H. Sabzwari, Chairman	35	35
2	Mr. Tahir Mahmood, Commissioner	55	45
3	Mr. Shaukat Hussain, Commissioner	55	55
4	Mr. Shauzab Ali, Commissioner	55	54
5	Mr. Aamir Khan, Commissioner	39	36

Conduct of business

During the year, the secretariat convened 48 regular and seven emergent meetings of the Commission, wherein 542 working papers of departments/divisions and 140 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 83 statutory regulatory orders/notifications and facilitated issuance of 27 circulars.

Way Forward

During the last fiscal year, the Commission has succeeded in introducing various measures for improving ease of doing business. A number of regulations were amended to implement stronger yet simplified compliance mechanisms, streamline unnecessarily cumbersome procedures and requirements, reduce turnover time and cut regulatory fees and costs. These initiatives resulted in a marked increase in the registration of new businesses, as well as visible improvements in post registration compliance.

In the upcoming fiscal year, the Commission will focus on creating an enabling business environment by promoting competition, improving efficiency and transparency, and implementing reforms that establish closer linkage of the capital markets with the real economy. The Commission will also continue efforts for enhancing the organization's responsiveness and reflective capabilities. Development of a roadmap to lay the foundations for these structural upgrades that will act as a bedrock for future progress, is already underway.

Promoting competition

The Commission believes that the market needs to grow in terms of number of investors, depth of trading platforms, supply of new issues, and a strong and vibrant group of intermediaries and supporting institutions. The market size, reach, diversity and appetite for innovation have to be expanded substantially to allow genuine competition; and it is only then that the market will be able to promote economic wellbeing through effective mobilization and allocation of resources on a risk-adjusted basis. Introduction of new products to help raise new capital and promote competition for capital market growth also needs to remain a key priority area.

Promoting efficiency and transparency

SECP's ability to leverage technology, analyze data, promote information sharing and collaborate with other regulators, as well as law enforcement agencies are all important objectives that we seek to achieve. The Commission is committed to investing in this internal energizing project to create an enabling regulatory environment, necessary for promoting capital formation and business development. In this area, we are taking major strides towards greater digitalization of regulatory processes, consolidation of the adjudication function, and for upgrading our investigation and supervision functions. Furthermore, the Commission intends to formally kick-start the LEAP (Leading Efficiency through Automated Prowess) project that envisages end-to-end digitalization of SECP's work environment.

Responsiveness to the needs of the economy

We are fully cognizant of the need to synchronize the capital markets with the country's economic needs in terms of capital formation, development of agriculture financing infrastructure and providing sustainable avenues that satisfy the multi-stage financing needs of start-ups. These challenges will be addressed through a multi-pronged approach that involves simplifying regulatory requirements, empowering the frontline regulators and energizing new product development initiatives. During the next fiscal year, focus will be on development of collateral management business eventually leading to trading of electronic warehouse receipts at a licensed exchange. We should also expect the launch of exchange-traded funds (ETFs), more vigorous support to microfinance institutions for meeting financing needs of micro businesses, and a shift towards the public sector raising financing for infrastructure through capital markets.

HR capacity building

In order to improve internal governance of the SECP, the Commission has conducted a comprehensive root cause analysis to identify governance shortcomings within the organization. The Commission held detailed deliberations, engaged with employees and conducted a structural and operational review of the SECP. This exercise helped identify key roadblocks causing organizational inefficiency. Some of the issues identified were stalled digitalization, frequent changes in the Commission, need for stronger understanding of market dynamics and capacity issues warranting extensive training programs for SECP's human resources.

In light of above, the Commission is devising a comprehensive plan for organizational development that includes revamping of departments, starting trainings related to skill development and leadership, and strengthening existing mechanism for ensuring meritocracy in promotions and recruitments. In addition, the Commission plans to conduct a proper workload assessment exercise and implement a mandatory rotation policy for the employees. Time bound smart objectives that are measurable, achievable and realistic will be set for the senior management. For gender mainstreaming at the SECP, measures will be taken to achieve gender balance while providing an empowering working environment, especially for females.

Appellate Bench

The Appellate Bench is a quasi-judicial appellate body of the SECP. The Bench executes its functions as per mandate allowed under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 and Section 481 of the Companies Act, 2017. The appeal filing and adjudication process are governed by the SECP (Appellate Bench Procedure) Rules, 2003. Any person aggrieved by an order of the Commission passed by a Commissioner or an officer authorized in this behalf by the Commission, may within thirty days of the order, prefer an appeal before the Bench. The bench comprises two Commissioners. The Appellate Bench Registry of the Commission is headed by the Registrar Appellate Bench.

During the financial year 2018-19, the Bench scheduled 146 Appeals, 53 Appeals were heard and 42 Appeals were disposed of. Furthermore, 56 new Appeals were registered under Section 33 of the SECP Act and Section 481 of the Act.

Internal Audit and Compliance Department

During FY 2018-19, IACD reported to Audit Committee for the first six months and thereafter to the Commission as per the directions given by the SEC Policy Board in its 4th meeting held on 30th January 2019. During the period, two meeting of the Audit Committee were held on 3rd July 2018 and 25th September 2018 wherein internal audit reports were presented before the Audit Committee. Since 30th January 2019, internal audit reports are being presented before the Commission.

Audit activities during the year 2018-19

IACD conducted audits as per annual audit plan approved by the Audit Committee. The plan was developed using a risk-based methodology. During the year under review, IACD performed a total 27 audits including 09 compliance audits, 08 financial audits, 07 CRO audits and 03 IT audits under the approved annual audit plan for the year 2018-19.

IACD also conducted pre-audit of 29 cases relating to the CAPEX and 91 cases relating to the OPEX and suggested remedial corrective actions. Further, pre-audited of 52 cases related to final settlement including payments on account of pensions, provident fund, gratuity and leave encashment. The observations were communicated to the respective department for taking appropriate corrective actions.

SENIOR MANAGEMENT

Muhammad Asif Jalal Bhatti
Market Supervision and Risk Department,
Securities Market Division

Musarat Jabeen
Executive Director/ Chief Spokesperson HOD, Policy Regulation and Development Department (SCD), Chairman's Secretariat, International Relations Department

Ali Azeem Ikram
Executive Director /HOD
Adjudication Division-
Adjudication Department-I

Bilal Rasul
Executive Director
Secretary to the Commission,
Registrar Appellate Bench,
Commission Secretariat, Islamic Finance Department

Abid Hussain
Executive Director /HOD
Corporate Supervision Department,
Company Law Division

Jawed Hussain
Executive Director
Adjudication Division-
Adjudication Department-II

Imran Inayat Butt
Executive Director /HOD
Adjudication Department,
Policy, Regulation and Development Department
Securities Market Division

Bushra Aslam
Executive Director /HOD Registrar Modaraba, Policy Regulation and Development Department,
Specialized Companies Division,
Administration Department

Muzzafar Ahmed Mirza
Executive Director /HOD
Prosecution and Legal Affairs Division (PLAD)

Khalida Habib
Executive Director /HOD
Anti Money Laundering Department,
Corporate Compliance Department-
Company Law Division

Mubasher Saeed Saddozai
Registrar of Companies/HOD
Corporatization and Compliance Department-CROs
Company Law Division

Abdul Rahim Ahmad
Director / HOD
Information Systems and Technologies Department, Chief Information Security Officer (CISO)

Statistics

STATISTICS

Table 1: Number and type of companies

Total number of companies as on 30.06.2019	
Type of Companies	Total
Companies limited by shares:	
Public listed	520
Public unlisted	2,576
Private	86,979
SMCs	8,640
Total companies limited by shares	98,715
Associations not-for-profit u/s 42	879
Companies limited by guarantee u/s 43	73
Trade organizations	311
Foreign companies	1,037
Private Companies with unlimited liability	1
Public Companies with unlimited liability	1
Companies under section 505(1)-(d)	3
Limited Liability Partnerships	308
Total Companies	101,328

Table 2: Capitalization breakdown as of June 30, 2019

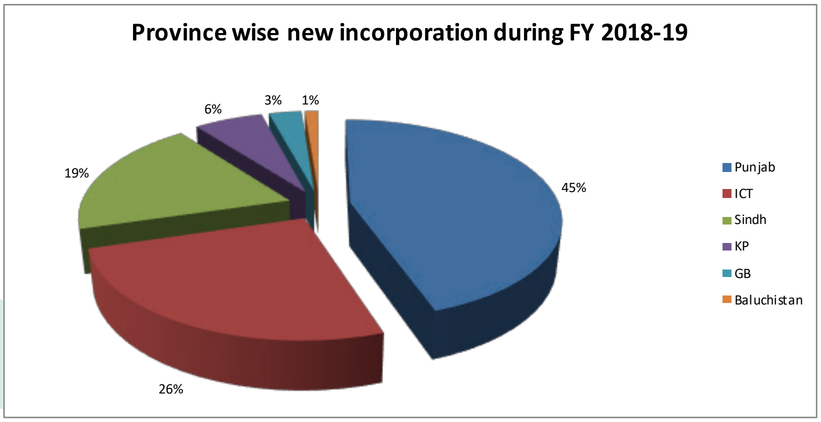
Particulars	Listed companies	Unlisted public companies	Private companies	SMCs	Total	% age
Paid up capital upto Rs100,000	-	446	36,641	6,394	43,481	44.05%
Paid up capital from Rs100,001 to 500,000.	1	300	13,542	1,124	14,967	15.16%
Paid up capital from Rs500,001 to 1,000,000	-	126	10,075	623	10,824	10.96%
Paid up capital from Rs1,000,001 to 10,000,000	10	360	19,653	407	20,430	20.70%
Paid up capital from Rs10,000,001 to 100,000,000	108	664	5,515	84	6,371	6.45%
Paid up capital from Rs100,000,001 to 500,000,000	171	390	1,196	7	1,764	1.79%
Paid up capital from Rs500,000,001 to1,000,000,000	75	105	193	1	374	0.38%
Paid up capital from Rs1,000,000,001 and above	155	185	164	-	504	0.51%
	520	2,576	86,979	8,640	98,715	100%

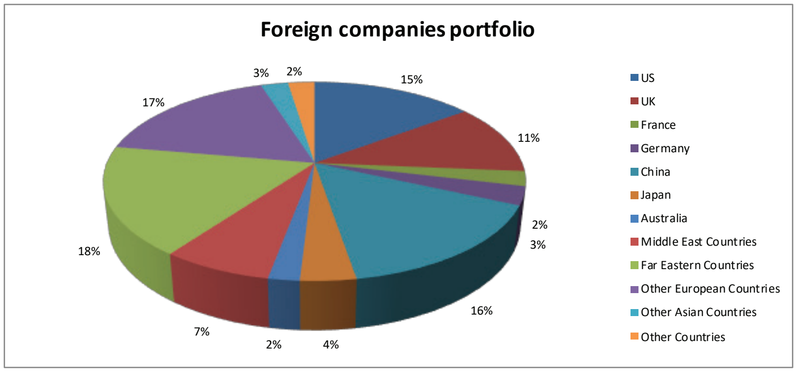
Table 3:Sector-wise distribution

Sector	Newly incorporated companies for the financial year ending June 30, 2019	Total companies as of June 30, 2019
Arts and Culture	14	52
Auto and Allied	164	1,348
Broadcasting and Telecasting	132	1,175
Cables and Electric Goods	108	1,045
Carpets and Rugs	3	82
Cement	9	137
Chemical	163	1,904
Communications	164	3,075
Construction	1787	7,907
Corporate Agricultural Farming	431	2,454
Cosmetics and Toiletries	141	125
Education	412	2,163
Engineering	355	2,827
Finance and Banking	16	1,145
Food and Beverages	534	3,620
Footware	14	112
Fuel and Energy	194	2,035
Ginning	2	337
Glass and Ceramics	22	297
Healthcare	220	1,167
Information Technology	1585	7,269
Insurance	22	336
Jute	0	20
Leather and Tanneries	22	416
Lodging	176	823
Marketing and Advertisement	385	433
Mining and Quarrying	197	1,119
Paper and Board	109	1,495
Pharmaceutical	232	2,168
Power Generation	98	1,474
Real Estate Development	507	2,543
Services	1802	12,191
Sport Goods	17	272
Steel and Allied	77	785
Sugar and Allied	2	194
Synthetic and Rayon	14	237
Textile	288	5,266
Tobacco	9	96
Tourism	974	8,788
Trading	2390	12,895
Transport	296	1,975
Vanaspati and Allied	6	474
Wood and Wood Products	44	300
Miscellaneous / Others	324	6,752
Total	14,461	101,328

Table 4: Foreign companies data by country / region

Country	Newly Incorporated companies FY 2018-19	Number of Companies as on 30-06-2019
US	2	154
UK	1	119
France	0	25
Germany	1	31
China	18	162
Japan	0	37
Australia	0	21
Middle East Countries	1	74
Far Eastern Countries	5	183
Other European Countries	3	180
Other Asian Countries	4	26
Other Countries	2	25
Total	37	1,037





Capital Market

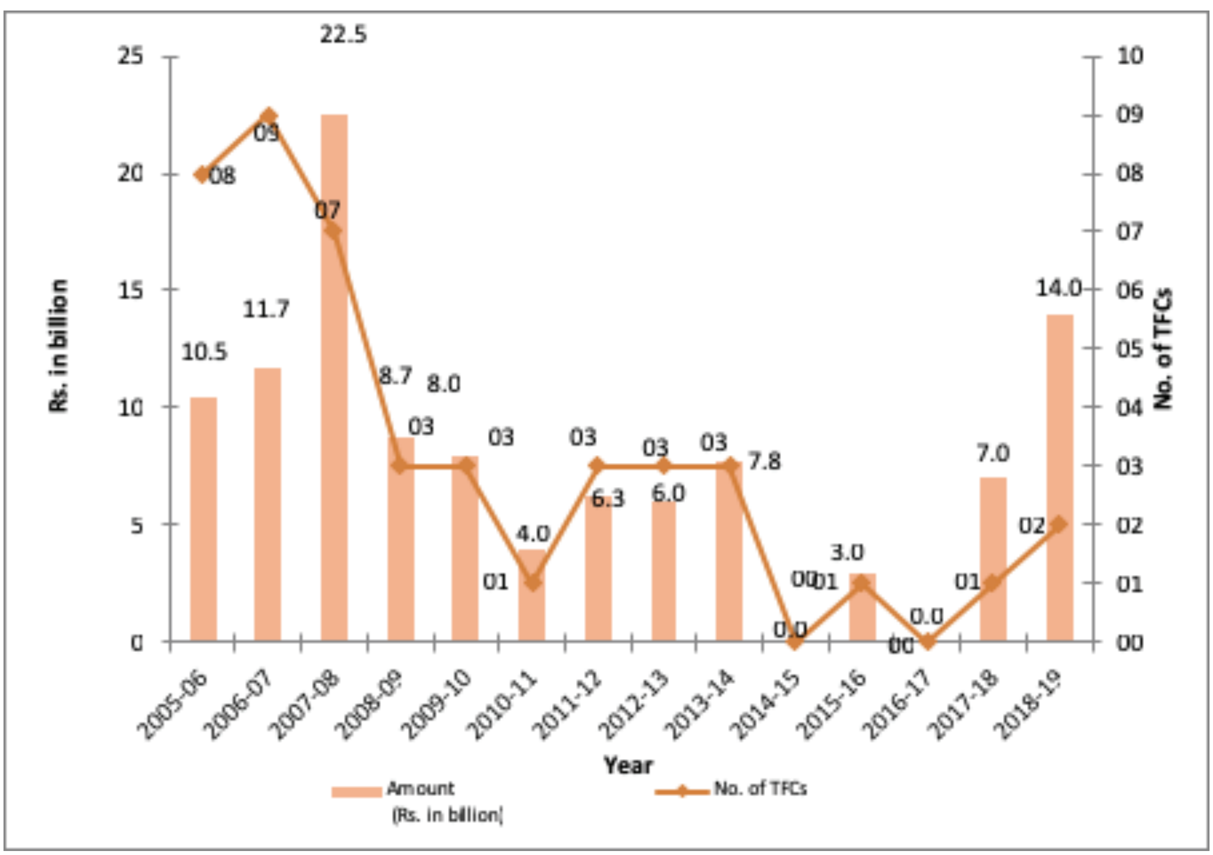
Table 5: Privately placed debt securities

Sr. No.	Name of Security	Number of Issues	Amount (in billion rupees)
1.	Privately Placed Term Finance Certificates	05	13.9
2.	Privately Placed Sukuks	09	236.1
3.	Privately Placed Commercial papers	05	25.7
	Total	**19**	**275.7**

Table 6: Corporate debt securities outstanding

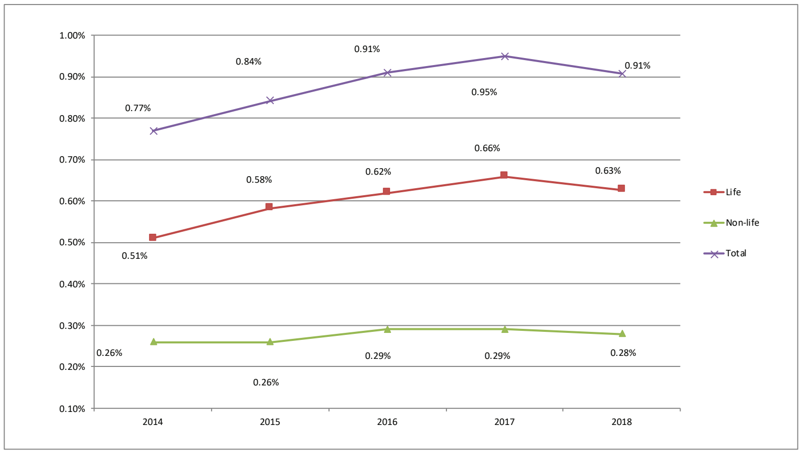
Sr. No.	Name of Security	Number of Issues	Amount (in billion rupees)
1	Listed Term Finance Certificates	13	35.433
2	Privately placed TFCs (PP-TFCs)	48	109.821
3	Sukuk (Listed & Privately Placed)	49	697.42
4	Participation Term Certificates	01	0.178
5	Privately Placed Commercial Paper	04	18.7
	Total	**115**	**861.552**

Number of Listed TFCs Floated - FY 2005-2019

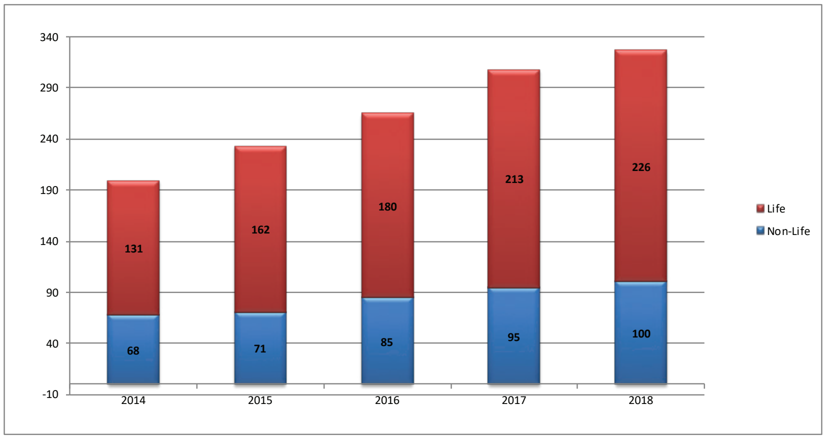


Insurance

Insurance penetration in Pakistan in last five years



Life and non-life insurance premium (amount in billion on vertical axis)



NBFC Sector

Table 7: 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	297	577,644.07	50.77%	577,644.07
AMCs/IAs	23	36,559.49	3.21%	–
Discretionary/non-discretionary portfolios	–	197,635.20	17.37%	–
Pension funds	19	26,497.77	2.33%	26,497.01
REIT management companies	5	5,722.65	0.50%	–
Real estate investment trust (REIT Scheme)	1	46,054.16	4.05%	46,054.00
Investment banks and micro finance institutions	35	177,397.12	15.59%	4,449.18
Leasing companies	6	10,157.00	0.89%	518.06
Modarabas	28	53,453.62	4.70%	9,559.35
*Private equity companies	4	158	0.01%	–
Private equity funds	3	6,568.00	0.58%	–
Total	421	1,137,847.08	100%	664,722.59

FINANCIAL STATEMENTS 2019

INDEPENDENT AUDITOR'S REPORT
TO THE FEDERAL GOVERNMENT OF PAKISTAN

Opinion

We have audited the financial statements of Securities and Exchange Commission of Pakistan (the Commission), which comprise the statement of financial position as at June 30, 2019, and the statement of income and expenditure and other comprehensive income, statement of changes in Funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at June 30, 2019 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 International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in Pakistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 misstatements, whether due to fraud or error.

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.

- 2 -

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA’s 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 ISAs, 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.
- 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 auditor's 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 auditor's 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.

Other Matter

The financial statements of the Commission for the year ended June 30, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on September 26, 2018.

A.F.Ferguson & Co.

Chartered Accountants
Islamabad. 03 October, 2019

Engagement partner: JehanZeb Amin

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

	Note	**2019**	2018
		(Rupees in thousand)	
NON-CURRENT ASSETS			
Property and equipment	6	**455,493**	498,539
Intangible assets	7	**2,649**	5,184
Long term investments	8	**-**	-
Loans and advances	9	**290,096**	296,391
Deferred tax asset	10	**69,687**	17,638
		817,925	817,752
CURRENT ASSETS			
Advances, deposits, prepayments and other receivables	11	**177,112**	163,709
Short term investments	12	**3,072,857**	3,101,468
Cash and bank balances	13	**40,626**	234,114
		3,290,595	3,499,291
CURRENT LIABILITIES			
Accrued and other liabilities	14	**(1,078,431)**	(1,444,932)
Payable to Federal Consolidated Fund	15	**(1,478)**	(626)
		(1,079,909)	(1,445,558)
Net current assets		**2,210,686**	2,053,733
NON-CURRENT LIABILITIES			
Provision for compensated absences	16	**(170,648)**	(162,025)
		(170,648)	(162,025)
Net assets		**2,857,963**	2,709,460
REPRESENTED BY:			
SECP Funds		**2,857,963**	2,709,460
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes 1 to 28 form an integral part of these financial statements.

CHAIRMAN **COMMISSIONER**

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF INCOME AND EXPENDITURE AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		(Rupees in thousand)	
INCOME			
Fees and other recoveries	18	**2,726,127**	3,232,915
Other income	19	**275,977**	209,453
		3,002,104	3,442,368
EXPENDITURE			
Salaries, allowances and other benefits	20	**2,116,423**	2,016,710
Operating expenses	21	**548,399**	494,747
Depreciation and amortization	6 & 7	**115,890**	123,235
		2,780,712	2,634,692
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		**221,392**	807,676
TAXATION	22	**64,914**	238,673
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX		**156,478**	569,003
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)
Related tax effect		**-**	311
		-	(729)
Items which will not be subsequently reclassified to profit or loss			
Actuarial (losses) on staff retirement funds	14.2.4	**(11,233)**	(380,648)
Related tax effect		**3,258**	114,194
		(7,975)	(266,454)
Total other comprehensive income/ (loss) - net of tax		**(7,975)**	(267,183)
TOTAL COMPREHENSIVE SURPLUS OF INCOME OVER EXPENDITURE		**148,503**	301,820

The annexed notes 1 to 28 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, 2019

	Assets acquisition reserve	Reserve for loan to employees	Surplus/ (deficit) on remeasurement of available for sale investments to fair value - net of tax	Accumulated comprehensive surplus/ (deficit) of income over expenditure	Total
	---------- Rupees in thousand ----------				
Balance as at July 1, 2017	1,886,911	520,000	729	-	2,407,640
Comprehensive income:					
Surplus of income over expenditure	-	-	-	569,003	569,003
Other comprehensive loss	-	-	(729)	(266,454)	(267,183)
Total comprehensive income	-	-	(729)	302,549	301,820
Transferred to asset acquisition reserve	202,549	-	-	(202,549)	-
Transferred to reserve for loan to employees	-	100,000	-	(100,000)	-
Balance as at June 30, 2018	2,089,460	620,000	-	-	2,709,460
Comprehensive income:					
Surplus of income over expenditure	**-**	**-**	**-**	**156,478**	**156,478**
Other comprehensive income	**-**	**-**	**-**	**(7,975)**	**(7,975)**
Total comprehensive income	**-**	**-**	**-**	**148,503**	**148,503**
Transferred to asset acquisition reserve	**48,503**	**-**	**-**	**(48,503)**	**-**
Transferred to reserve for loan to employees	**-**	**100,000**	**-**	**(100,000)**	**-**
Balance as at June 30, 2019	**2,137,963**	**720,000**	**-**	**-**	**2,857,963**

The annexed notes 1 to 28 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		(Rupees in thousand)	
Surplus of income over expenditure before tax		**221,392**	807,676
Adjustments for:			
- Depreciation and amortization		**115,890**	123,235
- Provision for pension		**58,125**	32,226
- Provision for gratuity		**93,374**	94,400
- Provision for compensated absences		**15,198**	3,281
- Discounting / (unwinding of) discount on long term loans to employees - net		**87,794**	63,940
- Interest income		**(261,895)**	(183,401)
- Gain on sale of property and equipment		**(4,111)**	(8,521)
		104,375	125,160
Operating income before working capital changes		**325,767**	932,836
(Increase)/ decrease in advances, deposits, prepayments and other receivables		**(41,026)**	10,617
(Decrease)/ Increase in accrued and other liabilities		**(17,305)**	45,249
		(58,331)	55,866
Net cash generated from operating activities		**267,436**	988,702
Contribution to pension fund		**(445,413)**	(126,773)
Contribution to gratuity fund		**(66,515)**	(98,323)
Compensated absences encashed		**(6,575)**	(8,224)
Payment to Federal Consolidated Fund		**-**	-
Taxes paid		**(86,082)**	(182,861)
		(604,585)	(416,181)
Increase in loans and advances		**(81,499)**	(47,612)
Increase in payable to Federal Consolidated Fund		**852**	-
Net cash (outflow)/ inflow from operating activities		**(417,796)**	524,909
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(77,811)**	(114,782)
Proceeds from sale of property and equipment		**11,613**	13,140
Investments - net		**(31,895)**	(425,258)
Interest received on investments and bank deposits		**322,401**	163,376
Net cash inflow/ (outflow) from investing activities		**224,308**	(363,524)
Net (decrease)/ increase in cash and cash equivalents		**(193,488)**	161,385
CASH FLOWS FROM FINANCING ACTIVITIES		**-**	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**234,114**	72,729
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	**40,626**	234,114

The annexed notes 1 to 28 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 JUNE 30, 2019

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, southern regional office located in Karachi, eight companies registration offices and two facilitation offices across Pakistan.

2. BASIS OF PREPARATION

2.1 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) issued by the International Accounting Standard Board (IASB) as are notified by the Commission to companies in Pakistan. However, to follow the best practices the Commission has adopted IFRS as a framework for preparation of the financial statements.

3. NEW AND REVISED STANDARDS AND INTERPETATIONS

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" became applicable to the Commission from July 1, 2018. For related changes in accounting policies and impact on the Commission's financial statements refer note 4 to these financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Commission :

		Effective date (annual reporting periods beginning on or after)
IAS 1	Presentation of financial statements (Amendments)	January 1, 2020
IAS 8	Accounting policies, changes in accounting estimates and errors (Amendments)	January 1, 2020
IAS 12	Income Taxes (Amendments)	January 1, 2019
IAS 19	Employee benefits (Amendments)	January 1, 2019
IAS 23	Borrowing Costs (Amendments)	January 1, 2019
IAS 28	Investment in Associates and Joint Ventures (Amendments)	January 1, 2019
IFRS 3	Business combinations (Amendments)	January 1, 2020
IFRS 9	Financial instruments (Amendments)	January 1, 2019
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty Over Income Tax Treatments	January 1, 2019

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The management anticipates that the adoption of the above standards, amendments and interpretations in future periods, will have no material impact on the financial statements other than the impact on presentation / disclosures. The Commission is in the process of assessing the impact of changes laid down by IFRS 16 and its effect on its financial statements.

Further, the following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Commission, for the purpose of their applicability to companies in Pakistan:

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 14	Regulatory Deferral Accounts
IFRS 17	Insurance Contracts

The following interpretations issued by the IASB have been waived of by the Commission:

IFRIC 4	Determining whether an arrangement contains lease
IFRIC 12	Service concession arrangements

4. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Commission's financial statements that have been applied w.e.f July 1, 2018 are as follows:

4.1 Financial Instruments

IFRS 9 "Financial Instruments" (IFRS 9) replaces IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39).

IFRS 9 introduces new requirements for i) the classification and measurement of financial assets and financial liabilities ii) impairment for financial assets.

IFRS 9 permits either a full retrospective or a modified retrospective approach for adoption. The Commission has adopted the standard using the modified retrospective approach for classification, measurement and impairment. This means that the cumulative impact, if any, of the adoption is recognized in unappropriated profit as of July 1, 2018 and comparatives are not restated. Details of these new requirements as well as their impact on the Commission's financial statements are described below:

i) Classification and measurement of financial assets and financial liabilities

The new standard requires the Commission to assess the classification of financial assets on its statement of financial position in accordance with the cash flow characteristics of the financial assets and the relevant business model that the Commission has for a specific class of financial assets.

IFRS 9 no longer has an "Available-for-sale" classification for financial assets. The new standard has different requirements for debt or equity financial assets.

Debt instruments should be classified and measured either at:

- Amortized cost, where the effective interest rate method will apply;
- Fair value through other comprehensive income, with subsequent recycling to the profit or loss upon disposal of the financial asset; or
- Fair value through profit or loss.

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Investments in equity instruments, other than those to which consolidation or equity accounting apply, should be classified and measured either at:

- Fair value through other comprehensive income, with no subsequent recycling to the profit or loss upon disposal of the financial asset; or
- Fair value through profit or loss.

Application of IFRS 9 had no impact on financial liability of the Commission

Assessment of financial impact of measurement requirements on adoption of IFRS 9 as at July 1, 2018 is as follows:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
			----------- Rupees in thousands -----------		
Current financial assets					
Advances, deposits and other receivables	Amortised cost	Amortised cost	113,169	113,169	-
Short term investments	Available for sale	Fair value through other comprehensive income	3,101,468	3,101,468	-
Cash and bank balances	Amortised cost	Amortised cost	234,114	234,114	-
Non-current financial assets					
Loans and advances	Amortised cost	Amortised cost	259,654	259,654	-
Current financial liabilities					
Accrued and other liabilities	Amortised cost	Amortised cost	(816,191)	(816,191)	-

Impairment of financial assets

IFRS 9 introduces the Expected Credit Loss (ECL) model, which replaces the incurred loss model of IAS 39 whereby an allowance for doubtful debt was required only in circumstances where a loss event has occurred. By contrast, the ECL model requires the Commission to recognize an allowance for doubtful debt on all financial assets carried at amortized cost (including, for example, trade debts and other receivables), as well as debt instruments classified as financial assets carried at fair value through other comprehensive income, since initial recognition, irrespective whether a loss event has occurred. For Advances, deposits, prepayments and other receivables, the Commission applies IFRS 9 simplified approach to measure the expected credit losses (loss allowance) which uses a life time expected loss allowance while general 3-stage approach for other financial assets i.e to measure ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition.

4.2 Revenue from Contracts with Customers

Effective July 1, 2018, the Commission has applied IFRS 15 "Revenue from Contracts with Customers" for determining its revenue recognition policy. IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. IFRS 15 is applicable on the Commission with effect from July 1, 2018. IFRS 15 addresses revenue recognition for contracts with customers as well as treatment of incremental costs incurred in acquiring a contract with a customer.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

IFRS 15 permits either a full retrospective or a modified retrospective approach for adoption.

The application of IFRS 15 has no material impact on the financial statements of the Commission.

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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of measurement

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

5.2 Functional and presentation currency

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

5.3 Significant accounting estimates

The preparation of financial statements in conformity with IFRS, 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 IFRS 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.

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(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 and intangible assets

The Commission reviews the useful life and residual values of property and equipment and intangible assets 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 or intangible assets with a corresponding affect on the depreciation/ amortization charge and impairment.

(d) Provision against loans, advances and receivables

The Commission applies the general approach for calculating a lifetime expected credit losses for its loans, advances, deposits and other receivables recognized. The life time expected credit loss is determined at least annually. However, an assessment is made at each reporting date to determine whether there is an indication that a financial asset or a group of financial assets may be impaired. If such an indication exists, the estimated recoverable amount of that asset is determined and impairment loss is recognized for the difference between the recoverable amount and the carrying value.

(e) Impairment

The carrying amounts of the Commission's assets are reviewed at each statement of financial position 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

The fair value of Fair value through other comprehensive income (FVTOCI) and Fair value through profit or loss (FVTPL) investments are determined by reference to market interest rate at the reporting date. Any change in the estimate might effect carrying amount of investments with corresponding effect in statement of income and expenditure and other comprehensive income.

5.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any, except for 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 6 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 other income.

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5.5 Intangibles

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 7 to the financial statements.

5.6 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 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.

5.7 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 at the rate of 10% of basic salary is charged to the statement of income and expenditure and other 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 14 of financial statements.

Charge for the year is recognised in statement of income and expenditure and other comprehensive income. Actuarial gain or losses arising on actuarial valuation are recorded directly in other comprehensive income.

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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 June 30, 2019.

5.8 Deferred grant

Grants that compensates the Commission for expenses incurred are recognised in statement of income and expenditure and other comprehensive income 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.

5.9 Revenue recognition

The Commission generates revenue by receiving fees and sums in accordance with the forms of various legal statutes/ regulations. The Commission recognizes revenue when it transfers services to its customers, being when the Commission has received consideration and the required information and there is no other information to be submitted to the Commission by the customer. Revenue is recognized as per the rates specified vide respective statutory forms to which the fee relates to.

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 bank deposits and short term investments are recognised using the effective yield method.

5.10 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 income and expenditure and other comprehensive income.

5.11 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 income and expenditure 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 statement of income and expenditure and 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 other comprehensive income.

5.12 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 statement of income and expenditure and other comprehensive income.

5.13 Contract liabilities

Under IFRS 15 “Revenue from Contracts with Customers”, obligation to transfer goods or services to a customer for which the Commission has received consideration or an amount of consideration is due from the customer is presented as contract liability. The contract liabilities of the Commission comprises of advance payments received from customers in accordance with the forms of various statues/ regulations as described in note 14.1 to the financial statements.

5.14 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.

5.15 Financial instruments

All financial assets and financial liabilities are recognized at the time when the Commission becomes a party to the contractual provisions of the instrument. All the financial assets are derecognized at the time when the Commission losses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognized at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on de-recognition of the financial assets and financial liabilities are taken to the statement of income and expenditure and other comprehensive income.

(i) Financial assets

Classification

Effective July 1, 2018, the Commission classifies its financial assets in the following measurement categories:

a) amortized cost where the effective interest rate method will apply;
b) fair value through profit or loss;
c) fair value through other comprehensive income.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

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For assets measured at fair value, gains and losses will either be recorded in statement of expenditure and income and other comprehensive income. For investments in equity instruments that are not held for trading, this depends on whether the Commission has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVTOCI). The Commission reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Commission commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Commission has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Commission measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in statement of expenditure and income and other comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Commission's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Commission classifies its debt instruments:

(a) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in statement of expenditure and income and other comprehensive income and presented in other income/ (charges). Impairment losses are presented as separate line item in the statement of income and expenditure and other comprehensive income.

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(b) Fair value through other comprehensive income (FVTOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest income which are recognised in statement of expenditure and income and other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of expenditure and income and other comprehensive income and recognised in other income/ (charges). Interest income from these financial assets is included in other income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of income and expenditure and other comprehensive income.

c) Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in the statement of expenditure and income and other comprehensive income and presented net within other income/ (charges) in the period in which it arises.

De-recognition of financial assets

A financial asset (or, where applicable part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Commission has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Commission has transferred substantially all the risks and rewards of the asset, or (b) the Commission has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Commission has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Commission's continuing involvement in the asset.

In that case, the Commission also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Commission has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Commission could be required to repay.

Impairment of financial assets

Effective July 1, 2018, the Commission assesses on a forward looking basis the Expected Credit Losses (ECL) associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Following are financial instruments that are subject to the ECL model:

- Advances, deposits and other receivables
- Short term investments
- Cash and bank balances
- Loans and advances

Simplified approach for advances, deposits and other receivables

The Commission recognises life time ECL on advances, deposits and other receivables, using the simplified approach. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Advances, deposits and other receivables are separately assessed for ECL measurement. The lifetime expected credit losses are estimated using the Commission's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Recognition of loss allowance

The Commission recognizes an impairment gain or loss in the statement of expenditure and income and other comprehensive income for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

As explained in note 4 to these financial statements, previously, impairment (loss allowance) was measured under incurred loss model of IAS 39.

(ii) Financial liabilities

Classification, initial recognition and subsequent measurement

The Commission classifies its financial liabilities in the following categories:

- at fair value through profit or loss; and
- other financial liabilities

The Commission determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, also include directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification, as follows:

a) Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as being at fair value through profit or loss. The Commission has not designated any financial liability upon recognition as being at fair value through profit or loss.

b) Amortised cost

After initial recognition, other financial liabilities which are interest bearing are subsequently measured at amortized cost, using the effective interest rate method. Gain and losses are recognized in the statement of income and expenditure and other comprehensive income, when the liabilities are derecognized as well as through effective interest rate amortization process.

De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income and expenditure and other comprehensive income.

(iii) Off-setting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, if the Commission has a legally enforceable right to set off the recognized amounts, and the Commission either intends to settle on a net basis, or realize the asset and settle the liability simultaneously. Legally enforceable right must not be contingent on future events and must be enforceable in normal course of business and in the event of default, insolvency or bankruptcy of the Commission or the counter party.

5.16 Receivable

Receivable are stated initially at the fair value, subsequent to initial recognition these are stated at their fair value as reduced by appropriate loss allowance account. The Commission recognizes an impairment gain or loss in the statement of income and expenditure for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. Known impaired receivables are written off.

5.17 Cash and cash equivalents

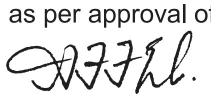
Cash and cash equivalents comprise cash in hand and bank balances.

5.18 Payables

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

5.19 Reserves

The amount appropriated to reserves for loan to employees and asset acquisition reserve is made as per approval of the Policy Board.



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6. 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	-----	-----	-----	-----	-----
As at July 1, 2017											
Cost	211,790	39,428	123,310	92,076	18,152	402,689	52,290	317,439	1,257,174	947	1,258,121
Accumulated depreciation	(639)	(29,886)	(96,020)	(73,985)	(15,610)	(341,742)	(28,366)	(161,087)	(747,335)	-	(747,335)
Net Book value	211,151	9,542	27,290	18,091	2,542	60,947	23,924	156,352	509,839	947	510,786
Year ended June 30, 2018											
Opening net book value	211,151	9,542	27,290	18,091	2,542	60,947	23,924	156,352	509,839	947	510,786
Additions	-	-	2,251	5,676	-	1,129	1,953	102,003	113,012	-	113,012
Transfers	-	-	-	-	-	947	-	-	947	(947)	-
Disposals											
Cost	-	-	-	(818)	-	(836)	-	(82,850)	(84,504)	-	(84,504)
Accumulated depreciation	-	-	-	818	-	836	-	78,231	79,885	-	79,885
	-	-	-	-	-	-	-	(4,619)	(4,619)	-	(4,619)
Depreciation charge	(2,139)	(1,971)	(10,326)	(11,351)	(1,120)	(27,074)	(4,929)	(61,730)	(120,640)	-	(120,640)
Closing net book value	209,012	7,571	19,215	12,416	1,422	35,949	20,948	192,006	498,539	-	498,539
As at June 30, 2018											
Cost	211,790	39,428	125,561	96,934	18,152	403,929	54,243	336,592	1,286,629	-	1,286,629
Accumulated depreciation	(2,778)	(31,857)	(106,346)	(84,518)	(16,730)	(367,980)	(33,295)	(144,586)	(788,090)	-	(788,090)
Net Book value	209,012	7,571	19,215	12,416	1,422	35,949	20,948	192,006	498,539	-	498,539
Year ended June 30, 2019											
Opening net book value	209,012	7,571	19,215	12,416	1,422	35,949	20,948	192,006	498,539	-	498,539
Additions	-	149	3,856	7,585	-	1,116	2,609	62,456	77,771	-	77,771
Transfers/ reclassification											
Cost	-	-	(209)	2,456	-	(5,283)	209	-	(2,827)	-	(2,827)
Accumulated depreciation	-	-	139	(2,456)	-	5,283	(139)	-	2,827	-	2,827
	-	-	(70)	-	-	-	70	-	-	-	-
Disposals											
Cost	-	-	(35)	(3,796)	-	(60,968)	(460)	(36,148)	(101,407)	-	(101,407)
Accumulated depreciation	-	-	35	3,796	-	60,740	432	28,902	93,905	-	93,905
	-	-	-	-	-	(228)	(28)	(7,246)	(7,502)	-	(7,502)
Depreciation charge	(2,139)	(1,972)	(8,309)	(8,273)	(620)	(19,859)	(5,016)	(67,127)	(113,315)	-	(113,315)
Closing net book value	206,873	5,748	14,692	11,728	802	16,978	18,583	180,089	455,493	-	455,493
As at June 30, 2019											
Cost	211,790	39,577	129,173	103,179	18,152	338,794	56,601	362,900	1,260,166	-	1,260,166
Accumulated depreciation	(4,917)	(33,829)	(114,481)	(91,451)	(17,350)	(321,816)	(38,018)	(182,811)	(804,673)	-	(804,673)
Net Book value	206,873	5,748	14,692	11,728	802	16,978	18,583	180,089	455,493	-	455,493
Rates of depreciation (per annum)/ Useful life	**99 years**	**5%**	**20%**	**30%**	**20%**	**20%/ 25%/ 33%**	**10%**	**20%**			

7. INTANGIBLE ASSETS

	2019	2018
	(Rupees in thousand)	
Computer software's - note 7.1	**2,649**	4,793
Intangible asset under development - note 7.2	**-**	391
	2,649	5,184

7.1 Computer Software

	(Rupees in thousand)
As at July 1, 2017	
Cost	120,906
Accumulated amortization	(114,898)
Net Book value	6,008
Year ended June 30, 2018	
Opening net book value	6,008
Additions	1,380
Amortization charge	(2,595)
Closing net book value	4,793
As at June 30, 2018	
Cost	122,286
Accumulated amortization	(117,493)
Net Book value	4,793
Year ended June 30, 2019	
Opening net book value	4,793
Additions	431
Reclassification from property and equipment	
Cost	2,827
Accumulated amortization	(2,827)
	-
Write off	
Cost	(35,388)
Accumulated amortization	35,388
	-
Amortization charge	(2,575)
Closing net book value	2,649
As at June 30, 2019	
Cost	90,156
Accumulated amortization	(87,507)
Net Book value	2,649
Amortization rate (%) per annum	25%

7.2 Intangible asset under development

	2019	2018
	(Rupees in thousand)	
Intangible asset under development	**-**	391

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8. LONG TERM INVESTMENTS	2019	2018
	(Rupees in thousand)	
Investment in associate - Unquoted		
Institute of Financial Markets of Pakistan - note 8.1	**28,000**	28,000
Less: Impairment loss on investment	**(28,000)**	(28,000)
	-	-

8.1 Investment in Institute of Financial Markets of Pakistan (a section 42 Company under the Companies Act, 2017)

This represents 73.68% (2018: 73.68%) investment in issued, subscribed and paid-up capital of Pakistan Institute of Capital Markets (the Institute) representing 5,600 (2018: 5,600) ordinary shares of Rs 5,000 (2018: 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 1 director as at June 30, 2019 (2018: Nil).

Further, the commission has undertaken to contribute an amount not exceeding Rs. 50,000 (2018: 50,000) to the assets of the institute in the event of its being wound up.

8.2 The following table summarises the financial information of the Institute as included in its financial statements for the year ended June 30, 2019, 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.

	2019	2018
	(Rupees in thousand)	
Percentage of shareholding	**73.68%**	73.68%
	Un Audited	Audited
Non current assets	**30,445**	1,773
Current assets (including cash and cash equivalents)	**11,322**	36,223
Total assets	**41,767**	37,996
Non-current liabilities	**-**	-
Current liabilities	**1,282**	2,752
Total liabilities	**1,282**	2,752
Net assets at fair value (100%)	**40,485**	35,244
Commissions share of net assets (73.68%)	**29,829**	25,968
Impairment loss on investment	**(28,000)**	(28,000)
Share in (losses)/ profits and assets not recognized	**(1,829)**	2,032
Carrying amount of interest in associate - note 8.1.2	**-**	-
Revenue	**26,745**	22,687
Profit from continuing operations (100%)	**5,222**	1,972
Other comprehensive income (100%)	**-**	-
Total comprehensive income (100%)	**5,222**	1,972
Commissions share of total comprehensive income - note 8.3	**3,848**	1,453

The information presented above for current year is based on unaudited financial statements of the Institute for the year ended June 30, 2019.

8.3 The carrying amount of interest in associate in the Commission's financial statements is Nil (2018: 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.

9 LOANS AND ADVANCES

	2019	2018
	(Rupees in thousand)	
Advance for capital expenditures - note 9.1	**27,223**	36,737
Loans and advances - considered good - note 9.2	**516,877**	403,271
Less: Current portion of loans and advances	**(97,270)**	(74,677)
	446,830	365,331
Less: Provision for imputed interest on loans and advances	**(156,734)**	(68,940)
	290,096	296,391

9.1 This includes an amount of Rs. 19,425 thousand (2018: 19,425 thousand) representing 5% bid money paid to Pakistan Railway for purchase of land.

9.2 These represent loans to employees for various purposes as per SECP Human Resource manual, secured against employees' retirement benefits and collaterals. Loans are recoverable in monthly installments, to a maximum period by January 2031 . During the year ended these loans have been designated as interest free for employees except for employees availing house and vehicle loans who have not opted out of interest on there respective provident fund balances.

10 DEFERRED TAX ASSET

	2019	2018
	(Rupees in thousand)	
The net balance of deferred taxation is in respect of the following temporary differences:		
- Accelerated depreciation and amortization	**30,818**	21,465
- Profit on short term investments accrued	**(14,704)**	(32,251)
- Discount on long term loan	**45,453**	19,993
- Impairment loss on investment in associate	**8,120**	8,120
- Remeasurement of investment available for sale	**-**	311
	69,687	17,638

11 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Current portion of loans and advances - considered good	**97,270**	74,677
Short term loans to employees - secured, considered good - note 11.1	**4,073**	4,486
Advances	**7,624**	8,429
Deposits	**3,540**	3,140
Prepayments	**12,955**	10,460
Advance tax - net - note 11.2	**12,457**	40,080
Fee receivable - considered good	**22,069**	7,213
Other receivables - considered good	**17,124**	15,224
	177,112	163,709

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11.1 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.

11.2 Advance income tax/ income tax payable - net

	2019	2018
	(Rupees in thousand)	
Opening balance	**40,080**	(250)
Tax charge for the year:		
Income and expenditure and other comprehensive income	**(116,963)**	(256,725)
Other comprehensive income	**3,258**	114,194
	(113,705)	(142,531)
Tax paid during the year	**86,082**	182,861
Closing balance	**12,457**	40,080

12 SHORT TERM INVESTMENTS

	2019	2018
Available for sale		
Special Notice Deposit Receipts (SNDR's)	**-**	346,479
Term Deposit Receipts (TDR's)	**-**	2,754,989
	-	3,101,468
Amortised cost		
Term Deposit Receipts (TDR's) - note 12.1	**873,059**	-
Government Treasury Bills (T-Bill's) - note 12.2	**2,199,798**	-
	3,072,857	3,101,468

12.1 These include TDR's having original maturity of 3 to 12 months carrying mark-up ranging from 6.50% to 12.00% (2018: Nil) per annum.

12.2 These include T-Bill's having original maturity of 3 months carrying mark-up ranging from 10.95% to 12.74% (2018: Nil) per annum.

13 CASH AND BANK BALANCES

	2019	2018
	(Rupees in thousand)	
Cash in hand	**408**	397
Cash at bank		
- current accounts	**5,479**	3,529
- interest bearing accounts - note 12.1	**34,739**	230,188
	40,626	234,114

13.1 These balances attract rate of return ranging from 10.25% to 10.50% (2018: 3.75% to 4.75%) per annum.

	2019	2018
	(Rupees in thousand)	

14 ACCRUED AND OTHER LIABILITIES

	2019	2018
Accrued expenses	**61,968**	138,563
Employees incentives payables	**367,558**	392,162
Accounts payable	**11,123**	11,727
Withholding tax payable	**588**	784
Unearned income - note 14.1	**115,163**	120,630
Payable to staff retirement funds - note 14.2	**158,131**	507,327
Levies payable to Competition Commission of Pakistan	**348,389**	264,076
Other liabilities	**15,511**	9,663
	1,078,431	1,444,932

14.1 Unearned income

This represents advance payments received from customers in accordance with the forms of various statues/ regulations including under the Companies Act, 2017, Insurance Ordinance, 2002 and NBFC and Notified Entities Regulations, 2008. Unearned income is recognised as revenue when the performance obligation in accordance with the policy as described in note 4.6 is satisfied.

	2019	2018
	(Rupees in thousand)	

14.2 Payable to staff retirement funds

	2019	2018
Pension fund - note 14.2.1	**131,886**	445,413
Gratuity fund - note 14.2.1	**26,245**	61,914
	158,131	507,327

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	Pension fund 2019	Pension fund 2018	Gratuity fund 2019	Gratuity fund 2018
	---------- Rupees in thousand ----------			
14.2.1 *The amount recognized in the statement of financial position is as follows:*				
Present value of defined benefit obligation - note 14.2.3	**1,468,553**	1,316,044	**904,643**	845,988
Fair value of plan assets - note 14.2.4	**(1,336,667)**	(870,631)	**(878,398)**	(784,074)
	131,886	445,413	**26,245**	61,914
14.2.2 The amount charged to statement of income and expenditure and other comprehensive Income				
Current service Cost	**35,938**	26,362	**90,795**	89,625
Interest cost on defined benefit obligation	**127,801**	79,590	**74,213**	71,441
Interest income on plan assets	**(105,614)**	(73,726)	**(71,634)**	(66,666)
	58,125	32,226	**93,374**	94,400
14.2.3 Changes in present value of defined benefit obligation				
Opening balance	**1,316,044**	880,579	**845,988**	792,561
Current service cost	**35,938**	26,362	**90,795**	89,625
Interest cost	**127,801**	79,590	**74,213**	71,441
Benefits paid	**(76,067)**	(40,298)	**(42,797)**	(40,458)
Amount received from Government of Pakistan	**1,671**	2,000	**-**	-
Actuarial loss/ (gain)	**63,166**	367,811	**(63,556)**	(67,181)
Closing balance	**1,468,553**	1,316,044	**904,643**	845,988
14.2.4 Changes in fair value of plan assets				
Opening balance	**870,631**	753,911	**784,074**	694,080
Interest income on plan assets	**105,614**	73,726	**71,634**	66,666
Contributions	**445,413**	126,773	**66,515**	98,323
Benefits paid	**(76,067)**	(40,298)	**(42,797)**	(40,458)
Amount received from Government of Pakistan	**1,671**	2,000	**-**	-
Return on plan assets, excluding interest income	**(10,595)**	(45,481)	**(1,028)**	(34,537)
Closing balance	**1,336,667**	870,631	**878,398**	784,074
Actual return on plan assets	**95,019**	119,207	**70,606**	101,203

The expected charge for next year on account of defined benefit pension and gratuity amounts to Rs. 37,703 thousand (2018: 82,545 thousand) and Rs. 85,498 thousand (2018: Rs. 96,435 thousand) respectively.

14.2.5 Break-up of category of assets

	Pension fund 2019	Pension fund 2018	Gratuity fund 2019	Gratuity fund 2018
	---------- Rupees in thousand ----------			
National Savings Certificates	**1,304,996**	-	**847,250**	774,058
Special Notice Deposit Receipts (SNDR) - National Bank of Pakistan	**-**	-	**-**	5,163
Special Savings Certificates	**-**	866,960	**-**	-
Term Deposit Certificates	**26,741**	-	**27,821**	-
Bank accounts	**4,930**	3,671	**3,327**	4,853
Fair value of plan assets	**1,336,667**	870,631	**878,398**	784,074

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.

14.2.6 The expected return on plan assets is based on the market expectations and depend upon the asset portfolio of the Funds, at the beginning of the year, for returns over the entire life of the related obligations.

14.2.7 Changes in liability/ (asset) recognized in statement of financial position

	Pension fund 2019	Pension fund 2018	Gratuity fund 2019	Gratuity fund 2018
	---------- Rupees in thousand ----------			
Opening liability	**445,413**	126,668	**61,914**	98,481
Amount charged to statement of income and expenditure and other comprehensive Income	**58,125**	32,226	**93,374**	94,400
Premeasurements charged in other comprehensive income	**73,761**	413,292	**(62,528)**	(32,644)
Contribution	**(445,413)**	(126,773)	**(66,515)**	(98,323)
Closing liability	**131,886**	445,413	**26,245**	61,914

14.2.8 The amount charged to other comprehensive Income

	Pension fund 2019	Pension fund 2018	Gratuity fund 2019	Gratuity fund 2018
Premeasurement (loss) / gain - Experience adjustment	**(63,166)**	(367,811)	**63,556**	67,181
(Loss) on plan assets, excluding interest income	**(10,595)**	(45,481)	**(1,028)**	(34,537)
	(73,761)	(413,292)	**62,528**	32,644

14.2.9 Principal actuarial assumptions

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at June 30, 2019 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund 2019	Pension fund 2018	Gratuity fund 2019	Gratuity fund 2018
Valuation discount rate - per annum	**14.50%**	10.00%	**14.50%**	10%
Salary increase rate - per annum	**10.00%**	9.25%	**10.00%**	9.25%
Withdrawal rates	Moderate	Low	Moderate	Low

14.2.10 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)	**(147,425)**	**176,942**	**(80,363)**	**92,593**
Future salary growth (1% movement)	**69,274**	**(63,599)**	**(98,391)**	**(86,430)**

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.

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

	2019	2018	2017	2016	2015
	Rupees in thousand				
Present value of the defined benefit obligations	**2,373,196**	2,162,032	1,673,140	1,415,100	1,235,294
Fair value of plan assets	**(2,215,065)**	(1,654,705)	(1,447,991)	(1,268,673)	(997,824)
Deficit in the plans	**158,131**	507,327	225,149	146,427	237,470
Experience adjustments on plan liabilities	**(390)**	300,630	(17,387)	(15,987)	220,456
Return on plan assets, excluding interest income	**(11,623)**	(80,018)	19,861	(12,775)	(16,134)

14.2.12 Projected benefit payments form funds are as follows:

	Pension Fund	Gratuity Fund
	Rupees in thousand	
Year 1	**142,074**	**73,858**
Year 2	**120,555**	**41,774**
Year 3	**178,334**	**41,695**
Year 4	**157,389**	**42,359**
Year 5	**252,926**	**114,497**
Year 6 to Year 10	**1,419,332**	**550,161**
Year 11 and above	**4,557,389**	**5,350,031**

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15 PAYABLE TO FEDERAL CONSOLIDATED FUND

	2019	2018
	(Rupees in thousand)	
Balance at the beginning of the year	**626**	-
Penalties collected during the year - note 15.1	**16,804**	35,573
Penalties deposited to the Fund during the year	**(15,952)**	(34,947)
Balance at the end of the year	**1,478**	626

15.1 Penalties collected during the year

	2019	2018
Company Law Division	**12,408**	18,809
Insurance Division	**2,760**	3,290
Securities Market Division	**1,426**	13,074
Specialized Companies Division	**210**	400
	16,804	35,573

15.2 In terms of an amendment to the SECP Act, 1997 through Finance Act, 2012, effective July 1, 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:

	2019	2018
	(Rupees in thousand)	
Accumulated surplus transferred to the Fund	**148,503**	302,549
Less: Transfer to reserve for loan to employees	**(100,000)**	(100,000)
Less: Amount retained for capital expenditures as per approved budget	**(48,503)**	(202,549)
	-	-
Payable to the Fund	**-**	-

The Commission has transferred Rs. 100,000 thousand and Rs. 48,503 thousand from the accumulated surplus to reserve for loan to employees and asset acquisition reserve respectively (2018: Rs. 100,000 thousand and Rs. 202,549 thousand respectively). The Commission believes that loans to employees are eligible deduction under the Act.

16 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.

	2019	2018
	(Rupees in thousand)	
Obligation at beginning of the year	**162,025**	166,968
Expense for the year	**15,198**	3,281
Encashed during the year	**(6,575)**	(8,224)
Obligation at end of the year	**170,648**	162,025

Principal actuarial assumptions

Latest actuarial valuation was carried out as at June 30, 2019 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2019	2018
Valuation discount rate - per annum	**14.50%**	10.00%
Salary increase rate - per annum	**10.00%**	10.00%

17 CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

(i) Certain companies / individuals filed suits against the Commission in respect of claims aggregating to Rs. 2,068,887 thousand (2018: 2,018,887 thousand) 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.

(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.

17.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 462,969 thousand. (2018: Rs. 376,289 thousand).

		2019	2018
		(Rupees in thousand)	
18	**FEES AND OTHER RECOVERIES**		
	Fees and other recoveries - note 18.1	**2,810,440**	3,332,902
	Less: Competition Commission of Pakistan levy	**(84,313)**	(99,987)
		2,726,127	3,232,915
18.1	Company Law Division	**1,513,097**	2,048,912
	Insurance Division	**381,253**	368,110
	Securities Market Division	**223,624**	243,856
	Specialized Companies Division	**692,466**	672,024
		2,810,440	3,332,902
19	**INVESTMENT AND OTHER INCOME**		
	Income on bank deposits	**14,474**	6,710
	Income on investments	**247,421**	176,692
	Gain on sale of property and equipment	**4,111**	8,521
	Miscellaneous income	**9,971**	17,530
		275,977	209,453
20	**SALARIES, ALLOWANCES AND OTHER BENEFITS**		
	Salaries	**683,608**	642,879
	House rent allowance	**406,183**	383,648
	Medical allowance	**100,669**	96,727
	Conveyance allowance	**20,380**	19,167
	Utilities	**67,680**	63,936
	Other allowance	**523,472**	559,795
	Charge for defined benefit funded pension	**58,125**	32,226
	Contribution to defined contributory provident fund	**59,940**	56,711
	Charge for defined benefit funded gratuity	**93,374**	94,400
	Charge for compensated absences	**15,198**	3,281
	Provision for discount on loans to employees	**87,794**	63,940
		2,116,423	2,016,710

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		2019	2018
		(Rupees in thousand)	
21	**OPERATING EXPENSES**		
	Repair and maintenance	**67,350**	59,236
	Support Staff cost	**91,261**	70,398
	Travelling and conveyance	**68,698**	54,459
	Telephone, postage and courier	**29,959**	30,252
	Utilities	**22,135**	16,040
	Rent and rates	**163,056**	154,675
	Printing and stationery	**17,106**	15,248
	Legal and professional charges	**16,808**	17,260
	Fees and subscription	**11,234**	10,092
	Human resource development	**6,648**	11,811
	Insurance	**11,502**	11,823
	Advertisement	**3,938**	7,250
	Entertainment	**365**	403
	Audit fee - note 21.1	**455**	435
	Others	**37,884**	35,365
		548,399	494,747
21.1	**Audit fee**		
	Statutory audit fee	**345**	345
	Out of pocket expenses	**110**	90
		455	435
22	**TAXATION**		
	Current tax		
	- current year	**115,490**	258,382
	- prior year	**1,473**	(1,657)
		116,963	256,725
	Deferred tax	**(52,049)**	(18,052)
		64,914	238,673

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

	2019	2018
	(Rupees in thousand)	
Surplus of income over expenditure	**221,392**	807,676
Tax at applicable tax rate of 29% (2018: 30%)	**64,204**	242,303
Effect of prior year charge	**1,473**	(1,657)
Permanent differences	**1,138**	-
Others	**(1,901)**	(1,973)
Tax expense for the year	**64,914**	238,673

22.2 Prior years tax matters

22.2.1 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.

22.2.2 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 February 19, 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.

22.2.3 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.

22.2.4 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.

22.2.5 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. 31.94 million. 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.

22.2.6 The tax authority has confronted the Commission with regard to alleged short deduction of tax from salaries of various employees for the Tax year 2017. On detailed reply filed by the Commission, the tax authority has not so far proceeded in this matter.

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.

24 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

24.1 Financial Instruments by category

June 30, 2019

Financial assets	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Total
	(Rupees in thousand)			
Maturity up to one year				
Advances, deposits and other receivables	**151,700**	-	-	**151,700**
Short-term investments	**3,072,857**	-	-	**3,072,857**
Cash and bank balances	**40,626**	-	-	**40,626**
Maturity after one year				
Loans and advances	**262,873**	-	-	**262,873**
	3,528,056	-	-	**3,528,056**

Financial liabilities	Fair value through profit or loss	Amortised cost	Total
	(Rupees in thousand)		
Maturity up to one year			
Accrued and other liabilities	-	**804,549**	**804,549**
Maturity after one year			
Accrued and other liabilities	-	-	-
	-	**804,549**	**804,549**

June 30, 2018

Financial assets	Loans and receivables	Fair value through profit or loss	Available for sale	Total
	(Rupees in thousand)			
Maturity up to one year				
Advances, deposits and other receivables	113,169	-	-	113,169
Short-term investments	-	-	3,101,468	3,101,468
Cash and bank balances	234,114	-	-	234,114
Maturity after one year				
Loans and advances	259,654	-	-	259,654
	606,937	-	3,101,468	3,708,405

Financial liabilities	Fair value through profit or loss	Amortised cost	Total
	(Rupees in thousand)		
Maturity up to one year			
Accrued and other liabilities	-	816,191	816,191
Maturity after one year			
Accrued and other liabilities	-	-	-
	-	816,191	816,191

24.1.1 Credit quality of financial assets

The credit quality of financial assets have been assessed below by reference to external credit rating of counterparties determined by the Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Company Limited (JCR - VIS). The counterparties for which external credit ratings were not available have been assessed by reference to internal credit ratings determined based on their historical information for any default in meeting obligations.

		2019	2018
		(Rupees in thousand)	
Advances, deposits and other receivables			
Counterparties without external credit ratings		**151,700**	113,169
Short-term investments			
Counterparties with external credit ratings	A-1+	**873,059**	-
	A1+	**-**	3,101,468
Counterparties without external credit ratings		**2,199,798**	-
		3,072,857	3,101,468
Cash and bank balances			
Counterparties with external credit ratings	A-1+	**40,218**	3,529
	A1+	**-**	230,188
		40,218	233,717
Loans and advances			
Counterparties without external credit ratings		**262,873**	259,654

24.2 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.

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24.3 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.

24.3.1 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:

	2019	2018
	(Rupees in thousand)	
Advances, deposits and other receivables	**151,700**	113,169
Short term investments	**3,072,857**	3,101,468
Cash at banks	**40,218**	233,717
Loans and advances	**262,873**	259,654
	3,527,648	3,708,008

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 Term Deposit Receipts with banks of aggregate amount of Rs. 3,022,154 thousand (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.

24.4 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**	**Maturity over one year**
As at June 30, 2019		**(Rupees in thousand)**		
Accrued and other liabilities	**804,549**	**804,549**	**804,549**	**-**
	804,549	**804,549**	**804,549**	**-**
As at June 30, 2018		(Rupees in thousand)		
Accrued and other liabilities	816,191	816,191	816,191	-
	816,191	816,191	816,191	-

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24.5 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.

24.5.1 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	
	2019	2018
	(Rupees in thousand)	
(i) Fixed rate instruments		
Cash at bank	**40,218**	233,717
Short term investment	**3,072,857**	3,101,468
	3,113,075	3,335,185

(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 statement of income and expendituire and other comprehensive income.

24.5.2 Currency risk management

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.

24.6 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.

	June 30, 2019		June 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rupees in thousand			
Assets carried at amortised cost				
Advances, deposits and other receivables	**151,700**	**151,700**	113,169	113,169
Short-term investments	**3,072,857**	**3,072,857**	-	-
Cash and bank balances	**40,626**	**40,626**	234,114	234,114
Loans and advances	**262,873**	**262,873**	259,654	259,654
	3,528,056	**3,528,056**	606,937	606,937
Assets carried at fair value				
Short-term investments	**-**	**-**	3,101,468	3,101,468
	-	**-**	3,101,468	3,101,468
Liabilities carried at amortised cost				
Accrued and other liabilities	**804,549**	**804,549**	816,191	816,191
	804,549	**804,549**	816,191	816,191

The basis for determining fair values is as follows:

24.6.1 Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. For instruments carried at amortized cost, since the majority of the interest bearing investments are variable rate based instruments, there is no difference in carrying amount and the fair value. Further, for fixed rate instruments, since there is no significant difference in market rate and the rate of instrument and therefore most of the fixed rate instruments are short term in nature, fair value significantly approximates to carrying value.

24.6.2 Fair value hierarchy

The table below 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.

	Level 1	**Level 2**	**Level 3**
June 30, 2019		Rupees in thousand	
Assets carried at fair value			
Short-term investments	-	-	-
June 30, 2018			
Assets carried at fair value			
Short-term investments	-	3,101,468	-

The carrying value of financial assets and liabilities reflected in these financial statements approximate their respective fair values.

24.6.3 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair values, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods.

Investment in securities- fair value through other comprehensive income

The fair value of fair value through other comprehensive income investments are determined either by reference to their quoted closing repurchase price at the reporting dates or as the present value of future cash flows discounted at market rates of interest for a similar instrument at the reporting dates.

24.6.4 Off-setting of financial assets and liabilities

The Commission does not have any legally enforceable right to set off the recognized amounts of financial assets and financial liabilities, therefore the Commission does not off-set any financial assets and financial liabilities.

25 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.

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26 RELATED PARTY TRANSACTIONS AND BALANCES

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 Nil (2018: Rs. 3,900 thousand). No interest is payable on these loans and these loans are repayable in upto 24 months after issue date. As at June 30, 2019, outstanding balance against loans advanced to the Commissioners was Rs. 585 thousand (2018: Rs. 3,399 thousand) included in loan and advances.

(ii) Key management personnel compensation

Key management personnel compensation comprised of the following;

	2019	2018
	(Rupees in thousand)	
Short term employee benefits	**89,101**	108,759
Post-employment benefit	**8,160**	7,199

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

	2019	2018
	(Rupees in thousand)	
Other related party transactions		
Contributions made to employees funds'	**511,928**	225,097
Contribution to Pakistan Institute of Corporate Governance	**100**	100
Payment to Federal Board of Revenue against taxes	**86,082**	182,861
Balances outstanding at the year end		
Due to employees benefit plans	**158,131**	507,326
Investments in the Pakistan Institute of Capital Markets - at cost	**28,000**	28,000
Payable to Federal Consolidated Fund	**1,478**	626
Payable to Competition Commission of Pakistan	**348,389**	264,076
Short term investments in treasury bills and banks	**3,072,857**	3,101,467

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27 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, where necessary, for more appropriate presentation. The same do not have an effect on previously reported surplus or SECP fund balance.

28 AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 26 SEP. 2019.

Chairman

COMMISSIONER

ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AC	Assessment Committee
AMCs	Asset Management Companies
AML	Anti-Money Laundering
APG	Asia Pacific Group
APRC	Asia Pacific Regional Committee
ARN	Adjudication Recommendation Note
ASO	Authorized Surveying Officers
BMC	Base Minimum Capital
BO	Beneficial Owners
BOI	Board of Investment
CDS	Central Depository System
CGT	Capital Gain Tax
CKO	Centralized KYC Organization
CMB	Capital Markets Board
CRA	Corporate Rehabilitation Act
CRF	Customer Relationship Form
CRO	Company Registration Office
DFM	Deliverable Futures Market
EM-MOU	Enhanced Multilateral Memorandum of Understanding
ESCA	Emirates Securities & Commodities Authority
FATF	Financial Action Task Force
GEM	Growth and Emerging Markets
IACD	Internal Audit and Compliance Department
IAIS	International Association of Insurance Supervisors
IFA	IPO Facilitation Account
IFD	Islamic Finance Department
IFSB	Islamic Financial Services Board
IIRA	Islamic International Rating Agency
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
ISIM	IOSCO Standards Implementation Monitoring
MDPRD	Market Development, Policy and Regulation Department

MES	Margin Eligible Securities
MFIs	Microfinance Institutions
MMOU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
MTS	Margin Trading System
NAB	National Accountability Bureau
NCCPL	National Clearing Company of Pakistan Limited
NCSS	National Clearing and Settlement System
NCTA	National Counter Terrorism Authority
NDM	Negotiated Deals Market
NFIS	National Financial Inclusion Strategy
NIC	National Incubation Center
NRA	National Risk Assessment
PIB	Pakistan Investment Bonds
PMD	Pakistan Mobile Database
PMIC	Pakistan Microfinance Investment Company
PMN	Pakistan Microfinance Network
PPDS	privately placed debt securities
REITS	Real estate investment trusts
ROSC	Reports on the Observance of Standards and Codes
RT	Review Team
SAB	Shariah Advisory Board
SAFA	South Asian Federation of Accountants
SBP	State Bank of Pakistan
SCRS	Specialized Companies Returns System
SDMS	Service Desk Management System
SDRC	Small Disputes Resolution Committees
SOC	Statement of Compliance
TCI	Technical Committee on Insurance
UBL	United Bank Limited
UIN	Unique Identification Number
UNCAC	United Nations Convention against Corruption

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, 2019.

Aamir Khan, Chairman

Sr. No	Name of Fund	Nature of Interest	Number of Units as on 30th June, 2019
1	UBL Fund	URSF- Equity Fund	2,416
2	UBL Fund	UBL Stock Fund	28,243
3	Al-Meezan	Islamic Fund	19,411
4	Al-Meezan	MTPF- Debt Fund	4,253
5	Al-Meezan	MTPF- Equity Fund	15,288
6	NBP-NAFA	NBP Stock Fund	106,877

Shaukat Hussain, Commissioner

Sr. No	Name of Fund	Nature of Interest	Number of units as of June 30, 2019
1	UBL Fund	Al-Ameen Retirement Saving Fund-MMSF	71,031.462
2	UBL Fund	Al-Ameen Retirement Saving Fund-ESB	3,767.1032
3	UBL Fund	Al-Ameen Cash Fund -MMSF	151,304.1673
4	Pak Qatar Family Takaful	Takaful Khazana- Aggressive Fund	53.40319
5	Pak Qatar Family Takaful	Takaful Khazana- Balance Fund	53.27007

Shauzab Ali, Commissioner

Sr. No	Name of Fund	Nature of Interest	Number of units as of June 30, 2019
1	UBL RETIREMENT SAVINGS FUND(URSF)	URSF - DEBT SUB FUND (URSF-DSF)	1,426.6789
2	UBL RETIREMENT SAVINGS FUND(URSF)	URSF - COMMODITY SUB FUND (URSF-CSF)	1,331.4409
3	UBL RETIREMENT SAVINGS FUND(URSF)	URSF - EQUITY SUB FUND (URSF-ESF)	2,197.6179
4	UBL Funds	UBL STOCK ADVANTAGE FUND (USF)	21,758.0505

* Mr. Tahir Mahmood and Mr. Zafar Abdullah have filed nil declaration

Farrukh H. Sabzwari, Commissioner

S. #	Name of Fund	Nature of Interest	No of units as of June 30, 2019
1	MCF – Al Meezan Investment Management Ltd.	Growth – C	151,539.6179
2	MIF – Al Meezan Investment Management Ltd.	Growth – B	132,503.6358
3	BMA Chundrigar Road Savings Fund	Investment Account	96,901.4346
	CDC's Individual Investor Account		
4	AGP Limited		10,000
5	Adamjee Insurance Company Limited		45,586
6	Bank Al Habib Limited		41,496
7	B.R.R. Guardian Modaraba		610
8	Century Paper & Board Mills Limited		27,600
9	Crescent Steel & Allied Products Limited		2,000
10	Dolmen City Reit		66,500
11	D.G. Khan Cement Company Limited		5,000
12	Dewan Salman Fibre Limited - Freeze		20
13	Engro Fertilizers Limited		57,000
14	Engro Corporation Limited		1,650
15	Engro Polymer & Chemicals Limited		50,000
16	Engro Powergen Qadirpur Limited		16,500
17	Fauji Fertilizer Bin Qasim Limited		50,000
18	Fauji Fertilizer Company Limited		40,625
19	Gatron (Industries) Limited		500
20	Habib Bank Limited		10,000
21	Habib Metropolitan Bank Limited		52,200
22	The Hub Power Company Limited		63,500
23	The Hub Power Company Limited - Lor (Freeze)		7,682
24	Hum Network Limited		50,000
25	ICI Pakistan Limited		1,000
26	Kot Addu Power Company Limited		1,500
27	K-Electric Limited		450,000
28	Lotte Chemical Pakistan Limited		100,000
29	Lalpir Power Limited		25,000
30	MCB Bank Limited		12,025
31	Meezan Bank Limited		12,100
32	National Bank Of Pakistan		26,090
33	Nishat (Chunian) Limited		60,000
34	Nishat Chunian Power Limited		25,000
35	Nishat Mills Limited		17,000
36	Nishat Power Limited		25,000
37	Oil & Gas Development Company Limited		25,000
38	Orix Modaraba		197
39	Pak Elektron Limited		29,920
40	First Prudential Modaraba		8,729
41	Pakistan Petroleum Limited		33,087
42	Pakistan Telecommunication Company Ltd.		300
43	Soneri Bank Ltd.		10,738
44	Sui Northern Gas Pipelines Limited		720
45	Sui Southern Gas Company Limited		5,906
46	United Bank Limited		7,500

Head office
NIC Building, 63 Jinnah Avenue, Blue Area, Islamabad
Tel: 051-9207091-4 Fax: 051-9204915

Islamabad
State Life Building No 7, Jinnah Avenue, Blue Area, Islamabad
Tel: 051-9208740-9206219 Fax: 051-9206893

Karachi
State Life Building No 2, Fourth Floor, North Wing, Wallace Road, off I.I. Chundrigar Road, Karachi
Tel: 021-99213271-2 Fax: 021-99213278

Multan
63-A, Nawa-i-Waqt Building, Second Floor, Abdali Road, Multan
Tel: 061-9200530 Fax: 061-9200920

Lahore
Associated House, Third and Fourth Floor, 7 Egerton Road, Lahore
Tel: 042-99204962-6 Fax: 042-99202044

Peshawar
State Life Building, First Floor, The Mall, Peshawar Cantt
Tel: 091-9213178 Fax: 091-9213686

Faisalabad
Faisalabad Chamber of Commerce and Industry Building, Second Floor, East Canal Road, Faisalabad
Tel: 041-9230264 Fax: 041-9230263

Sukkur
First Floor, House No. 4, Block A, Sindhi Muslim Cooperative Housing Society, Airport Road, Sukkur
Tel: 071-5630517 Fax: 071-5633757

Quetta
Aiwan-e-Mashriq, Plot No 4-A, Ground Floor, opposite FC Headquarters, Hali Road, Quetta
Tel: 081-2844136 Fax: 081-2899134

Gilgit
Adjacent to NHA office, Ayub Colony, Jattial, Gilgit
Tel: 05811-922572