SECP

Securities and Exchange
Commission of Pakistan

CAPITAL MARKET DEVELOPMENT PLAN (2016-2018)

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Table of Contents

Chairman's Message

It gives me great pleasure in presenting the Capital Market Development Plan (2016-18), devising way forward for the Pakistani capital market. The Plan is a roadmap for initiatives envisaged by the Securities and Exchange Commission of Pakistan (SECP) for development of the capital market in the near future. The Plan has been framed after extensive stakeholder consultation including suggestions and feedback from leading market professionals, and includes key reforms based on international best practices and benchmarks.

I am elated to share with you that Pakistani capital market has been continuously exhibiting exemplary performance over the last few years. The recent up-gradation of Pakistan from Frontier Markets to Emerging Markets by Morgan Stanley Capital International is an evidence of the turnaround the market is experiencing, both in terms of increased activity and performance and in terms of improved image in the eyes of the global investor base. Post 2008 crisis, it required a battery of reforms and dedicated efforts by all market participants to restore this stature in international forums. Despite the improved performance, the capital market faces multiple challenges which need to be addressed in order to achieve high rate of sustainable growth. Some of the major issues faced by this market are lack of investor awareness and participation, weaknesses in existing market structure and lack of product and market development.

The SECP, being the apex regulator, is fully cognizant of the challenges and accordingly continues to push with the reform agenda to address any issues which may impede market performance. With support from the stakeholders, the SECP has undertaken a plethora of reforms in the recent past to address the key issues and to foster transparency and investor protection. These include the successful integration of the stock exchanges into a joint trading platform, introduction of a central counterparty for clearing and settlement, transfer of risk management to the clearing company, and promulgation and implementation of modern and comprehensive laws such as the Securities Act and the Futures Market Act. Here, I must also mention the magnanimous support extended by the Government of Pakistan in enabling the SECP to successfully implement these reforms.

Going forward, instituting a solid regimen of investor protection and building investor confidence remains the essence of SECP's reform agenda. The same is reflected in this Plan which aims at putting in place effective measures and initiatives for achieving the said objectives. We are fully dedicated to build an environment of regulatory compliance and enforcement where there will be zero tolerance for market abuse and malpractices. The SECP stands committed towards achieving full compliance with international benchmarks of securities regulation. For this purpose, we are continuously upgrading our laws and introducing a comprehensive regulatory and enforcement regime for all types of market intermediaries which will ensure optimal regulation along-with ensuring business continuity and viability of such intermediaries.

Given the importance of core capital market institutions such as the securities and futures exchanges and the depository and clearing companies, the Plan chalks out key structural and governance reforms for these institutions. Alongside, the SECP is also focusing on key developmental objectives post MSCI upgrade, with particular focus on the derivatives, debt and commodity futures market which is reflected in the Plan. Measures are also in pipeline to boost activity in the market by incentivizing new quality listings and bringing certain additional categories of companies into the listings net. The SECP has also taken a number of steps for facilitating ease of doing business and will continue introducing reforms for encouraging investment in the country. For improved liquidity and efficient price discovery, the requirement for listed companies to have minimum free float is also in the pipeline.

The SECP, along-with the stakeholders, is also involved in an extensive investor education and outreach campaign to address the issue of meager investor base in the country. This Plan, albeit short term, focuses on achievement of these very objectives to ensure ongoing and sustainable development of the capital market.

Pakistan's capital market has great potential to become one of the leading markets in the region. The SECP would require continuous cooperation from the market participants in achievement of the initiatives laid down in the Plan for helping the capital market secure this status!

INTRODUCTION

Brief Overview of the Capital Markets in Pakistan

The Securities and Exchange Commission of Pakistan (SECP) as the apex regulator of the Pakistani capital markets is entrusted with the overall development and regulation of the capital market, the Self-Regulatory Organizations (SROs) and the intermediaries operating in the capital market, and protection of investors. The SROs include the Pakistan Stock Exchange (PSX), the National Clearing Company of Pakistan Limited (NCCPL); the Central Depository Company of Pakistan Limited (CDC), and the Pakistan Mercantile Exchange Limited (PMEX). The various intermediaries operating in the capital market include securities advisers, brokers and managers, debt securities trustees, balloters and share registrars, credit rating companies and underwriters.

Stock Market

The Pakistan Stock Exchange (PSX) is the only stock exchange in Pakistan which was inaugurated on January 11, 2016, after integration of the trading platforms of the three former stock exchanges i.e. Karachi Stock Exchange Limited, Lahore Exchange Limited and Islamabad Exchange Limited. As of June 16, 2016, there were 559 companies listed on PSX with a market capitalization of Rs 7,677 billion (USD 73.32 billion). Figure 1 reflects the trend in market capitalization of PSX from December 31, 2012 till June 16, 2016, which increased by 283.7% in the said period. Average daily turnover for the period January-June 16, 2016 at PSX was 185.15million shares in the ready market and 37.55million shares in the futures market.

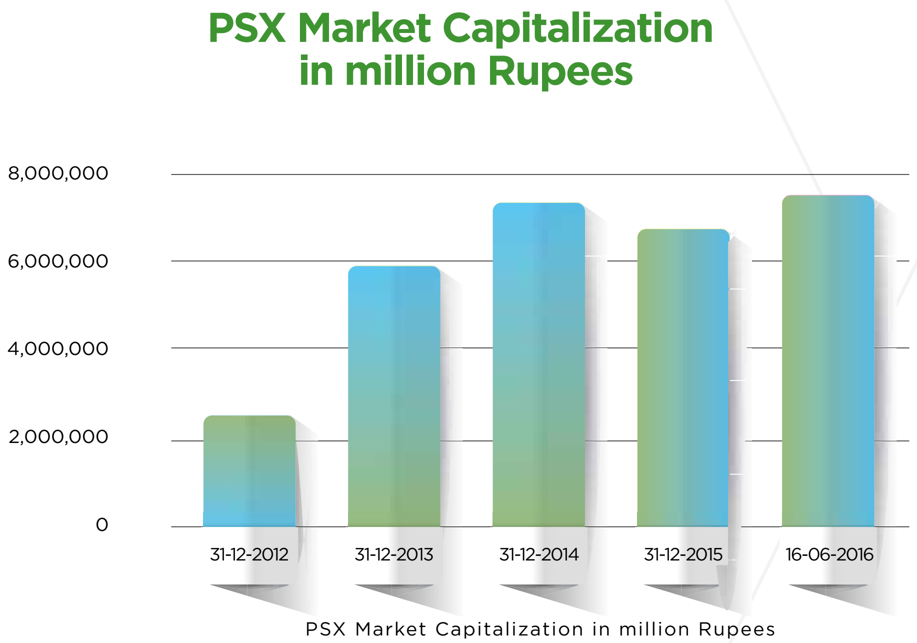

Figure 1

KSE-100 index is the leading benchmark index at PSX which is a free float adjusted market capitalization weighted index of 100 stocks consisting of top market capitalization companies from each of the 32 sectors and is the most popular index tracking the overall prices. The KSE-100 Index stood at 32,811.89 points on December 31, 2015, which increased to 38,751.60 points on June 16, 2016, depicting a growth of around 18.10%. The benchmark index has performed exceptionally well in recent years which is illustrated in figure 2.

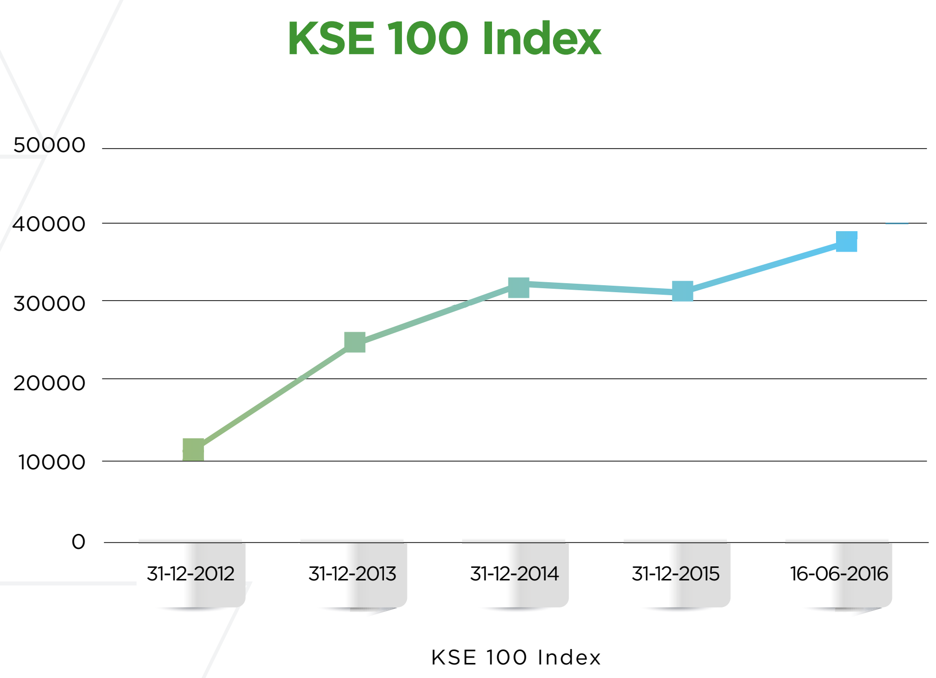

Figure 2

From December 31, 2012 to June 16, 2016, the KSE 100 index increased by 412.8% with a year on year compounded return rate of 59.53%.

Commodities Market

The Pakistan Mercantile Exchange Limited, which commenced operations in May 2007, provides a regulated platform for trading of futures contracts in commodities. The futures contracts presently available at the Mercantile Exchange include varying sizes of gold and silver contracts, rice, palm oil, crude oil, sugar, cotton, red chili and interest rate contracts. From July 01, 2015 till June14, 2016, a total of 3.47 million commodity futures contracts with the value of Rs1.20 trillion were traded at PMEX. Crude oil was the most traded contract with gold, silver, I-cotton and red chilies following the trend respectively. Overall, 1.78 million contracts in crude oil, 1.38 million in gold, 0.29 million in silver, 2,396 in I-cotton and 605 contracts in red chilies, were traded at PMEX. Figure 3 illustrates percentage of each type of contract traded from July 01, 2015 to June 14, 2016.

Percentage of Contracts Traded on PMEX

from July 01, 2015 to June 14, 2016

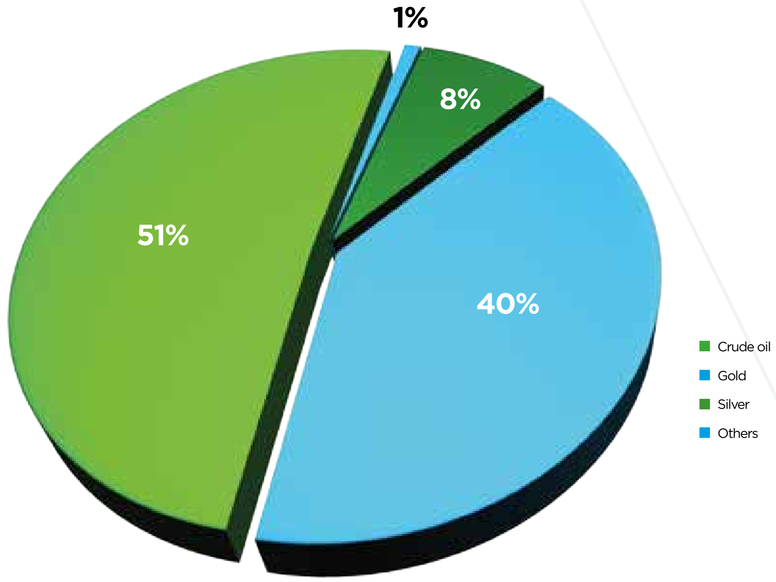

Figure 3

Depository, Custodial, Clearing and Settlement

Custody and depository services are being provided by CDC which handles the electronic settlement of transactions carried out at the stock exchange. CDC also provides trustee and custodial services for the mutual fund industry and share registrar services for the corporate sector.

The clearing and settlement function is centralized at NCCPL which provides for settlement of trades executed at the stock exchange in dematerialized shares. The company also provides institutional delivery system facilitating direct settlement of institutional trades, margin financing and margin trading modules and registration of Unique Identification Numbers (UINs). Additionally, NCCPL is responsible for computing, determining, collecting and depositing Capital Gains Tax (CGT) to the national exchequer on behalf of the capital market investors.

CHALLENGES FOR THE PAKISTANI CAPITAL MARKET

The Pakistani capital market today faces a multitude of challenges which are summarized below. These challenges need to be dealt with prudently in order for our capital market to realize its full potential and play its due role in capital formation. The capital market is still not a popular mode of investment amongst the general public, due to which the market is not performing at the optimal level. Major challenges are highlighted below:

1. Increasing investor awareness, access, participation, and confidence:

With regards to investors who are the most important stakeholders of the capital markets, following are the major challenges that the capital market is facing at present:

- Low savings rate
- Meagre number of investors
- Lack of viable investment alternatives
- Limited outreach of financial/capital market institutions and products
- Confidence building measures for greater investor participation

In Pakistan, the culture of savings and investment has not been promoted nationwide in the past. The past five years' average savings rate as a percentage of GDP in Pakistan was relatively low, i.e. 13.92% as compared to 31.9% for India, 29.7% for Bangladesh and 24.5% for Sri Lanka. Vibrant and stable financial sector and capital market play a critical role in the economic growth of a country. This, however, is only possible in the wake of a wide range of saving and investment products being available to meet the risk appetite of investors and the funding needs of borrowers. Unfortunately, this is not the case in Pakistan where the banking and non-banking financial sectors have not performed up-to the mark on this account. Even the banking sector despite having dominant position and privatization has not come up with major innovative products to adequately meet requirements of both depositors and borrowers at the grass root level. Investment in government paper continues to dominate the overall balance sheet of the banking sector while credit to private sector is limited to well-established corporate houses, leaving a large segment of small and medium size enterprises (SMEs) starved of funding. The non-banking financial sector also presents a bleak picture, not only in terms of financial assets, but also with regard to participation and outreach to the general public.

The figures for the non-bank financial market participants depict a tremendous need to increase awareness and outreach. In the capital market, there are around 250,000 investors, which are around 0.125% of the total population, a vast majority of whom are based in the three large cities, while asset management companies and stockbrokers have limited presence in few major cities. With over 60% of the population living in the rural and semi-urban areas, the capital market has negligible outreach there and even in the urban centers it is limited to the principal cities of Karachi, Lahore and Islamabad.

Despite being one of the best performing markets of the world for many years, the Pakistani capital market as compared to other markets has a very small investor

[1] State Bank of Pakistan
[2] State Bank of Pakistan

base. The capital market will remain underdeveloped as long as the savings rate remains low. Also, the bulk of savings are drawn away by the government and banks, the former carrying a "risk-free" status, while the latter primarily being used for payments, as depicted by the fact that total deposits over one year amounted to only 10.66 % of the total deposits with the banks, as of June 2015. Also, the debt market remains largely inactive and underdeveloped, unlike other jurisdictions, because of which risk-averse investors have stayed away from the capital market.

In the context of capital market, the low number of investors has an adverse impact on liquidity and market efficiency. Small number of active investors leads to problems like low volumes, difficulty in fund raising by companies seeking capital, inefficient price discovery and consequently impaired investor confidence. These facts and figures clearly suggest that dedicated efforts are required to achieve a vibrant non-bank financial market, in particular the capital market, and corporate sector in Pakistan.

Finally, concrete measures are required to be undertaken by the regulators and other stakeholders to boost investor confidence especially in the backdrop of market closure in 2008. This is imperative to not only address the above issues of dismal participation of investors in the market, but also to retain existing investors. In particular, investors' confidence in the brokerage community needs to be restored through a mix of incentive to serve investors coupled with strong enforcement by and capacity building of the front line regulators.

2. Market Structure:

Another major challenge is weaknesses in the existing market structure and alignment of this structure with international standards. This challenge has been further broken down into specifics as follows:

a) Addressing the weak link between the capital market and the real economy: A key issue is the weak link between capital market and the real economy. A very small portion of public savings reaches the real economy through the capital market. As already mentioned, there are only a few hundred listed companies and perhaps an aggregate of a couple of hundred thousand of investors in such companies. The bulk of the market capitalization of the capital market is represented by either state-owned enterprises or privatized companies. Market capitalization as a percentage of GDP was only 24.6% in Pakistan in the year 2015 as compared to 261.6% in Singapore, 135.8% in Malaysia, 113.4% in Thailand, 85.97% in India and 98.36% in China, as depicted in figure 4 .

[3] National Inflation Association, USA

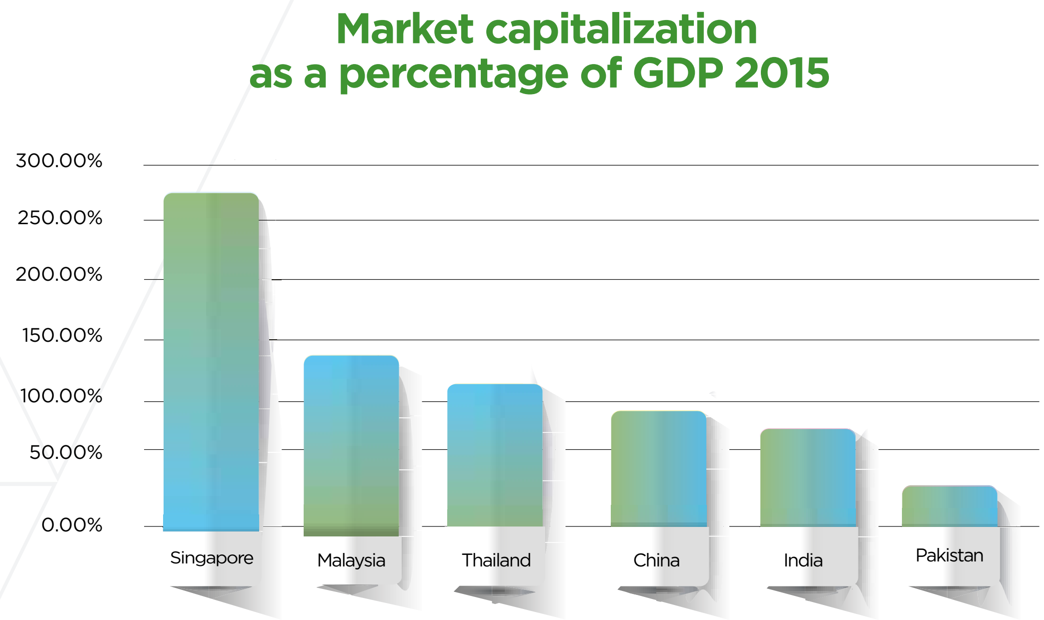

Figure 4

A sector wise breakup of the country's GDP reveals that amongst the services, agricultural and industrial sectors - livestock, manufacturing, wholesale and retail trade, transport storage and communication, and crops are the major contributors towards the GDP. On the other hand, a sector wise breakup of the market capitalization of listed companies depicts that commercial banks, oil and gas exploration companies, food and personal care products and cement sectors constitute the major part of the market capitalization. Comparison of the two indicators emphasizes the need to attract major sectors of GDP into the listing net to make the capital market a true representative and contributor of the country's economy.

The number of retail investors who invest through the market is much smaller than the number of those participating in IPOs for a quick return and those who hope to make a profit through investment and trading (leveraged or otherwise). Thus a very small amount of true savings from the retail level gets routed to financing business activity through the capital market.

The financial sector is mainly dominated by the banks which are still the popular option for majority investors because of their ease of outreach and acceptability in the general public. If one looks at the non-bank financial sector, total number of individual accounts reported by all mutual funds and voluntary pension schemes were 250,499 as of June 30, 2015, out of which individual investors in mutual funds and voluntary pension schemes were 115,826. Insurance premiums as percentage of GDP stood at 0.8% which is very low; while investment banking, housing finance and leasing sectors are struggling for survival.

b) Promoting a culture of compliance through structural reformation, effective enforcement and capacity building: On the legal and regulatory front, significant improvement has been achieved through promulgation of important legislation such as the Securities Act, 2015, the Futures Market Act, 2016 and the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012. However, the real challenge lies in the effective implementation and enforcement of these laws. Supervision and enforcement capabilities and responsibilities of the self-regulatory organizations need to be strengthened and made more effective, as presently there are numerous gaps in the same.

This would also require putting in place strong structural and governance controls at the self-regulatory organizations which act as the frontline regulators. The SROs in the capital markets have been entrusted with the crucial role of providing platforms/services to the investors and market participants. Considering the importance of these institutions, it is imperative that they operate on the fundamentals of investor protection, good governance, transparency and independence from any actual or perceived conflict of interest.

World over, capital market infrastructure institutions are increasingly assuming the roles of SROs or frontline regulators with varying degrees of regulatory authority. While doing so, it needs to be ensured that the aspect of conflict of interest arising from duality of nature of functions performed by SROs is adequately catered for. In Pakistan, the capital market institutions, such as the stock and commodity exchanges, the clearing and depository companies have not been performing in the capacity of full-fledged SROs. Efforts are required by these entities to assume greater responsibility by taking on the duties of a full-fledged SRO, whereby they will be required to perform all three of the following: rule-making, supervision and enforcement of the applicable laws by market participants/intermediaries. Acting as an SRO would mean that these entities, apart from taking on important responsibilities of regulation-making, supervision and enforcement, would also focus on their own structure, governance and operations to ensure transparency.

Also, across the globe, broad movement towards consolidation and mergers has been witnessed. This has resulted in major changes in the capital market infrastructure and emergence of globally interconnected capital markets. Majority of the stock exchanges internationally stand demutualized and corporatized with healthy capitalized intermediaries. The pace of adapting to such global trends has been slow in Pakistan. Pakistani capital market has taken a significant step by achieving integration of the three exchanges into one platform. However, post integration, the new exchange still has to attract the desired strategic investment and technological partnerships. Going forward, it needs to be ensured that the SROs have improved governance and have appropriate structure coupled with technological partnerships which will help them meet their objectives in the new environment.

On the enforcement side, the SROs must focus on enhancing their supervision and enforcement capabilities by putting in place mechanisms for risk management, real-time monitoring of market information and use of technology to benefit from automation and reduce their cost of compliance. Further, to ensure that the SROs fulfil their responsibilities to investors, issuers, and the public, there is need for capacity building of these SROs and strong adherence to the highest professional and ethical standards. It needs to be ensured that in addition to being well-governed, the SROs have competent and fit and proper management and trained staff to perform their functions in effective manner. Lastly, to undertake market development, SROs should also assume other responsibilities such as investor education, awareness etc. in the greater benefit of the market.

Also, for market intermediaries, crucial structural reforms are required to ensure that only well-capitalized, well governed and fit and proper entities are operating in the capital market with appropriate safeguards for delivering their fiduciary responsibilities and ensuring protection of customers' assets and interests.

3. Product and Market Development:

As already highlighted under the investor section, product and market development remain a major challenge for Pakistani capital market. It is imperative that extensive product/market development initiatives are taken for investors to encourage their participation in this market. Almost all segments of the capital market other than equity have largely remained inactive. Even on the equity side, lack of quality listings is a major issue, as explained above. A number of reforms have been introduced for market development in the past. For instance, the market witnessed the introduction of derivative products, separate automated systems for trading of equity and debt instruments, introduction of SME counter, various leverage mechanisms, book-building mechanism for initial public offerings, market making etc. However, continuous efforts need to be made to expand and broaden the product portfolio in line with international trends to enhance investment opportunities. Perhaps the most important aspect would be to attract quality listings to the capital market to become a major source of capital formation for big corporations as well as SMEs. Efforts are required for utilizing the potential of the market to the maximum in terms of new listings. This may be achieved through a vigorous IPO generation drive which would highlight the benefits of listings to the corporate sector. Also, innovative technological solutions need to be introduced to incentivize companies to list by reducing time and cost involved in listings and post listing reporting and compliance requirements.

While the cash market in Pakistan is relatively mature, the derivatives segment has not performed to its fullest. The range of derivative products offered at the stock exchange is relatively limited. Diversified derivative instruments need to be launched to enable investors to better manage their portfolios and risks. Regarding the debt market, the corporate bonds can be a viable option for both savers and borrowers; however, this segment has remained underdeveloped primarily due to the crowding out effect and a lack of infrastructure necessary for a bond market. Various measures have been taken for development of debt market such as introduction of and improvement in BATS-the automated system for trading of bonds, introduction of separate regulations for listing of debt securities, and launch of trading platform for government debt securities. Despite the same, the debt segment has not presented a very encouraging picture in the past and even at present.

Also, internationally, commodities markets constitute an important part of the capital markets as these help reduce price volatility and bring about a balance in production and consumption of commodities in the economy. Futures market in the commodity are relatively new in Pakistan and major initiatives are required to diversify the product portfolio, create investor confidence and remove bottlenecks hampering growth of this market.

NEED FOR THE CAPITAL MARKET DEVELOPMENT PLAN

In order to meet the challenges enumerated above, a concerted effort needs to be made on several fronts, i.e., creating awareness amongst masses about capital market; ensuring access to and availability and outreach of the capital market infrastructure institutions and products; instituting legal, regulatory, structural and governance reforms for the market, SROs and intermediaries; introducing measures to restore investor confidence through improved compliance and enforcement; and giving incentives to promote corporatization and listings, to name the most important. Each of these is equally important and needs to be developed/introduced side by side, so that they supplement each other, and cohesively contribute to overcoming the challenges faced by the financial sector of Pakistan in general, and the capital market in particular.

Accelerated efforts are required for increasing financial literacy - educating existing and potential investors about their rights, roles and responsibilities. Targeted awareness campaigns are required for retail investors, policy/decision makers, and pension and insurance sectors. Expanding market outreach is also a major challenge when it comes to investor awareness, which needs to be dealt with by expanding branch network of the market intermediaries, capital market infrastructure institutions and by making use of technological innovations for targeting geographically remote investor base. Also, major initiatives are required to reinforce investor confidence in the market by further improving risk management, governance and transparency and investor protection in the capital market operations. This also calls for implementation of effective ongoing supervision and enforcement mechanisms and compliance processes including enhanced market monitoring and surveillance and inspections.

The SECP as the apex regulator of the Pakistani capital market has already embarked upon a reform agenda for the development of the capital market. A number of crucial reforms have been implemented such as integration of the three former stock exchanges into one trading platform, enhanced role of the NCCPL as central counterparty for the capital market, transfer of risk management from PSX to NCCPL and the process of legislative reforms for the capital market. However, extensive reforms are still required to make the earlier reforms a success and introduce further improvement and mechanisms for market development and investor protection.

Realizing the need to formulate a comprehensive strategy to meet the challenges faced by the Pakistani capital market, the SECP initiated work on formulating a Capital Market Development Plan (CMDP) outlining strategic objectives and initiatives for coming three years. The SECP carried out a detailed exercise in consultation with key stakeholders and has formulated a three-year strategic plan. The said plan broadly focuses on introduction of key structural reforms for SROs and intermediaries, revision of existing laws and framing legislations for new products, measures for encouraging new listings and increasing market depth, liquidity and outreach, development of a vibrant debt, derivatives and commodities market, and measures for investor awareness and protection.

The CMDP provides market participants with clarity as to the vision, objectives and initiatives for the capital market. The Plan ensures that the Pakistani capital market is well positioned to play its effective role in supporting the overall economic growth and development objectives of the country, while being dynamic enough to meet the challenges of globalization and external competition.

VISION AND MISSION FOR THE PAKISTANI CAPITAL MARKET

Vision
"To be a fair, modern, efficient and globally competitive market, responsive to the needs of its stakeholders, and based on sound regulatory principles, that provides impetus for high economic growth and is the major facilitator for investment activity and fund-raising in the country."

Mission
"To contribute effectively towards the overall economic development of the country and to foster an investment climate in the country, based on the principles of fairness, efficiency and transparency and driven by innovation and investor protection - governed by a sound regulatory framework aligned with international legal standards and best practices- coupled with strong risk management system."

KEY STRATEGIC OBJECTIVES AND INITIATIVES FOR THE PAKISTANI CAPITAL MARKET

Taking into account the regional and local dynamics of the Pakistani capital market and the challenges enumerated earlier, the CMDP lists down the following key objectives for the three years 2016-2018:

1. Legal and Regulatory Reforms
2. Structural reforms and developmental initiatives at the SROs - PSX, CDC, NCCPL, PMEX
3. Reforms for Capital Market Intermediaries
4. Product and Market Development
5. Reforms for Issuers in the Capital Market
6. Reforms for Investors' Access, Awareness, Protection and Facilitation
7. Improving Marketability, Image-Building and Compliance with International Standards

1. LEGAL AND REGULATORY REFORMS

Significant improvement has been achieved with regards to regulatory framework for the capital market in Pakistan. Promulgation of important laws such as Securities Act, 2015 has placed Pakistan on par with other jurisdictions and has improved compliance with international benchmarks of securities regulation. Regulatory reforms are an ongoing process and continuous improvements are sought to existing framework along-with introduction of new laws, to keep the market abreast of latest trends and requirements. Accordingly, following major regulatory reforms are envisaged for 2016-18:

a) Futures Market Act, 2016: For efficient regulation of the futures market, a revised Futures Market Act, 2016, which has been drafted after extensive stakeholder consultation, has been approved by the Parliament and has received presidential assent. The Act contains dedicated provisions based on international best practices to cater for all aspects of the futures market, to allow for fair, transparent and efficient futures markets in Pakistan. The Act is designed to protect public interest through a system of effective self-regulation of futures markets, clearing systems, market participants and market professionals under the oversight of the SECP.

   Also, subsidiary legislation under the Futures Market Act has commenced to provide for areas specified in the Act. This includes regulations for licensing and operations of a futures exchange, clearing house and intermediaries in the futures market.

b) The SECP Amendment Act: The draft amendment Act which would amend the existing Securities and Exchange Commission of Pakistan, Act, 1997 and will serve as an umbrella law for all statutes being administered by the SECP, has been passed by the National Assembly and has been presented in the Senate for approval. The Act empowers the SECP through enhanced statutory powers in line with its increased mandate and strengthens the regulatory framework for overall role of SECP. It also provides for introduction of the concept of Self-Regulatory Organizations (SROs) for major capital market institutions and intermediaries such as brokers, Institute of Financial Markets etc. in line with international best practices. Further, it contains provisions for establishment of a financially and operationally independent Audit Oversight Board.

c) Amendments and Improvements to existing laws: In order to ensure that capital market laws are updated in view of latest changes in the field and market requirements, the existing and any newly approved laws will be continuously reviewed to make requisite changes therein. In this regard, an exercise is already being undertaken for areas for improvement in the Securities Act, 2015 to assist in better and improved implementation of the Act.

Further, amendments will be made to the Central Depositories Act, 1997 to do away with the outdated provisions and to bring it in line with the requirements of the Securities Act, 2015. Further, the CDC Regulations will be revamped to properly synchronize them and to further strengthen CDC's legal framework with respect to inspection and audit of the CDS Participants.

2. STRUCTURAL REFORMS AND DEVELOPMENTAL INITIATIVES AT THE SELF-REGULATORY ORGANIZTIONS - PSX, CDC, NCCPL, PMEX

The self-regulatory organizations are the pillars of a capital market, which are entrusted with critical roles of rule-making, supervision and enforcement, along-with product and market development. It is accordingly imperative that such institutions function in accordance with fundamental principles of good governance, transparency and investor protection, as well as being well-positioned, technologically updated and offering a diverse array of investment alternatives, to deliver their responsibilities in an effective manner. Following structural and development initiatives are planned in this context:

a) Post integration reforms - Divestment of Shares and Self-Listing: The former three stock exchanges of Pakistan were corporatized and demutualized on August 27, 2012 as per the requirements of Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012 (the "Act"). The three exchanges integrated into a single trading platform under the name of Pakistan Stock Exchange Limited in terms of the Act and the Memorandum of Understanding signed between the exchanges for the purpose.

   In terms of the Act, efforts will be made for divestment of shares of PSX to the strategic investors, financial institutions and general public. Simultaneously, efforts will be made for self-listing of the stock exchange by offering its shares to the general public and regulatory framework will be put in place for the same. The strategic investors will bring modern technology, good governance and resources for the stock exchange. The integration will be followed with a strong reforms package for the PSX along-with the CDC and NCCPL to ensure that the objectives and benefits of integration are fully realized and the capital market performs according to international standards.

   Also, as mentioned in the section highlighting challenges, necessary reforms will be carried out for the capital market institutions to assume the role of full-fledged SROs as per international best practices. For this purpose, crucial changes to the boards of directors of these SROs have already been put in place. Further, limits on shareholding of SROs will be imposed to ensure good governance and transparency and avoidance of conflict of interest. Also, supervision and enforcement capabilities of the SROs will be strengthened to put in place a strict compliance culture, through capacity building, improved surveillance, monitoring and inspections regime, and use of technology.

b) Benchmarking of Central Counter Party (CCP) as per IOSCO principles: After the successful introduction of NCCPL as a central counter party and establishment of a supporting Settlement Guarantee Fund (SGF), any shortcomings in the existing regulatory requirements for CCP will be identified and benchmarking against IOSCO Principles will be done, in terms of sufficiency of SGF, market risk etc. Also, NCCPL will carry out a self-assessment as a central counter party to ensure compliance with international benchmarks including IOSCO principles.

c) Phase II of the Transfer of Risk Management Function to NCCPL: Phase I of transfer of the risk management to NCCPL has been successfully completed, given its role in the clearing and settlement of trading at the stock exchange, and for seamless risk management of the capital market. In the second phase, NCCPL will assess accuracy and sufficiency of margins and undertake complete review of entire risk management system in line with international best practices and local market conditions. Further NCCPL will develop the risk management software in-house or acquire it from PSX or any other vendor.

d) Governance Reforms: For operational independence of PSX, independence on its board of directors and board committees shall be ensured. Also, it has been envisaged that the boards of directors of CDC and NCCPL should also comprise of independent directors. Further, all the directors shall be required to comply with the Fit and Proper Criteria prescribed by the SECP under the Securities Act, 2015. These measures will aid in ensuring minimal conflict of interest especially considering that the entire risk management system is being transferred to NCCPL and the availability of sensitive information at CDC.

e) Strengthening of regulatory functions of SROs: In order to provide a level playing field to all participants and to ensure complete independence of the stock exchange's regulatory functions and oversight, the possibility of establishing an independent entity in future to perform all regulatory functions, including compliance and enforcement of the stock exchange, will be explored. This would also minimize the conflict of interests arising from commercial operations of the exchange and activities of the Trading Right Entitlement Certificate (TREC) holders. Similar entity may also be established for CDC and NCCPL once it is undertaken for PSX.

f) Technological partnerships: Post integration, PSX would be required to enter into an arrangement for technological partnership with an international stock exchange, to develop its operations and enable it to provide state of the art trading systems, relevant software and new products. The partnership would particularly focus on developing the derivatives segment of the exchange. These partnerships may also assist in shifting from the existing Value-at-Risk margining system to adopting internationally acclaimed systems/software for margining regime.

g) Business structure: Considering the need for CDC and NCCPL to mainly concentrate on core operations, all non-core functions of CDC and NCCPL such as Direct Settlement Services, National Custodial Services, Capital Gains Tax computation and collection, leveraged products, trusteeship, registrar services and insurance repository services would only be offered through their subsidiaries. This would aid in avoiding any conflicts of interest and to reduce the risk from any spillover effects where CDC and NCCPL might be providing related services in the industry.

h) Business continuity: Given the greater need for business continuity and disaster recovery post integration, the PSX will have an adequately functioning offsite Disaster Recovery site. This would ensure continuity of market activity in case of any disaster which might prohibit trading from the mainframe. Also, all SROs would be encouraged to obtain international certifications or accreditations related to information security management, business continuity management, etc. Further, possibility for all SROs to have an integrated business continuity arrangement will be explored.

i) Sustainability: Keeping in view size of operations of CDC and NCCPL and their future needs, both entities need to be well capitalized and accordingly, efforts would be made to increase their financial resources. The CDC will be required to enhance its paid-up capital to a specified threshold within a given period of time. Considering the additional responsibilities to be assumed by NCCPL, it will be required to obtain a risk-based assessment of its capital needs by an independent consultant and will be required to meet such capital requirement over a given period of time.

j) Review and revision of tariff structure to bring down cost of doing business for investors: To ensure that the SROs have sufficient financial resources to finance their operations while having a balanced tariff structure in line with international best practices, comprehensive review to facilitate investors and reduce cost of doing business may be carried out for such SROs. In this context, tariff structure of the CDC has already been rationalized.

k) New Product Development: Possibility of introduction of new products and systems through subsidiaries of the depository and clearing companies, aimed at increasing efficiency of these SROs will be assessed. These include development and implementation of a model for Professional Clearing Members (PCMs) which will perform custody and settlement functions for the Trading Only category of brokers, as required under the categorization of brokers. NCCPL, CDC, or the banks may act as such PCMs under defined parameters.

   Further, in line with international best practices, the possibility of CDC introducing services such as e-voting, e-notices, insurance repository, academic repository, corporate management and investor relations portal will be assessed. Also, the NCCPL will act a Centralized KYC Organization as also explained in the next section under market intermediaries.

   At the PSX, distinction will be created between companies with a certain minimum percentage of free float and those which do not meet the said threshold of free float with the purpose of investor awareness regarding companies in whose shares they are trading. Also, the benchmark KSE-100 index which is presently skewed towards a few blue-chip stocks because of their large weightage and low volumes will be reviewed in light of global best practices.

l) Capacity building of SROs for effective enforcement: To put in place a strong culture of compliance and enforcement, emphasis would be placed on human resource quality and capacity building of the frontline regulators. The SROs will be required to hire and retain dedicated and qualified staff, adhering to highest ethical and professional standards, for the purpose of their regulatory, surveillance and enforcement activities.

m) Enhanced collaboration with other regulatory bodies: The SECP intends to develop procedures which can lead to detection of money laundering practices which may be conducted through the stock exchange. Additionally, insider trading has been made a criminal offence under the Securities Act, 2015, in line with global best practices, to discourage and deter such market abuses and malpractices which can jeopardize investors' interest. For this purpose assistance from other regulatory entities such as the Federal Investigation Agency (FIA), National Accountability Bureau (NAB), State

Bank of Pakistan (SBP), National Database and Registration Authority (NADRA), Federal Board of Revenue (FBR), Pakistan Telecommunications Authority (PTA), etc., will be sought, in order to detect such malpractices and take joint action, for restoration of investor confidence.

n) Implementation of Market Halts and Widening of Scrip Level Circuit Breakers: Considering the scrip level circuit breakers applicable at the stock exchange are too narrow and inhibit efficient price discovery preventing investors from easy exit from the market, it is in consideration to gradually widen existing scrip level circuit breakers and introduce index based market wide coordinated trading halts which will facilitate exchange in collection of margins before resumption of trading. Such halts will be implemented at the exchange in line with international practices and empirical study. The same shall enable efficient price discovery in the market without compromising on risk management.

o) Strengthening surveillance capacity of the stock exchange: To enhance the monitoring and surveillance capabilities of the stock exchange, surveillance software at the PSX will be enhanced through inclusion of similar functionalities as embedded in the market surveillance suite being employed by the SECP.

p) Measures for introducing technology, automation and standardization: Realizing the need to keep the capital market abreast of latest trends in technology and to deliver the benefits of low cost, ease of access and reduced turnaround time provided by automation, a number of measures will be undertaken which are summarized as follows:

- A road map will be developed in coordination with commercial banks for enabling investors to apply for IPOs online/electronically to facilitate investors by giving them benefits of automation and reduced turnaround time involved.

- Given that e-dividend is an efficient and economical way of payment of cash dividend as it saves time and cost of both the companies and shareholders, it would be made mandatory for issuers to offer e-dividend facility to their shareholders.

- Efforts will be made for automation of other corporate entitlements such as rights issue subscription. Also, standardization of corporate announcements by issuers, possibly through a single body may be explored to achieve efficiency in the process and avoid duplication of efforts.

- Efforts will be made through relevant legislation to prohibit physical issuance of securities and require all issued capital to be in dematerialized form, to do away with the numerous problems attached with physical shares.

- To assist in effective compliance and promote automation and standardization, all capital market intermediaries will be required to submit all information about their financials to the SECP through an online reporting system.

- Software requirements, vendor requirements and IT and data security requirements will be standardized for securities brokers. Accordingly brokers will be required to use only such software, electronic system or applications for the purpose of trading, risk management, clearing and settlement, and preparation of books and accounts that meet certain prescribed minimum specifications. Further requirements will be introduced for eligibility of software vendor and data security to ensure standardization and transparency.

- The SECP e-services would be extended to enable and facilitate the beneficial owners of listed companies to also file their returns of beneficial ownership and tenderable gain reporting electronically.

3. REFORMS FOR CAPITAL MARKET INTERMEDIARIES

Regulation and oversight of capital market intermediaries is of utmost importance, since they come in direct contact with the investors and are responsible for managing and maintaining their assets. It is accordingly imperative that such intermediaries are regulated with an appropriate mix of regulation and facilitation to ensure investor protection, while managing the risk they are exposed to and facilitating market development and outreach. Following reforms are in the pipeline to achieve the same:

a) New regulatory regime for Securities Brokers: A new regime, based on the provisions of the Securities Act, 2015 and the International Organization of Securities Commission's (IOSCO) Principles of securities regulation, will be introduced for securities brokers operating in the capital market focusing on minimum entry standards, criteria for sponsors, directors and employees, corporate governance, risk-based capital adequacy and regular audits. Salient features of the regime are as follows:

   o To ensure segregation and safeguarding of investors' assets and classification of brokers according to the risk they will be exposed to, categorization of brokers into trading and clearing members will be introduced, to allow custodial functions with well-capitalized financial institutions and brokerage houses only. It is envisaged that three categories of brokers will be introduced: i) Trading Only Brokers who will be allowed to trade on proprietary account and on behalf of their clients only but who will not be able to clear or settle such trades; ii) Trading and Self Clearing Brokers who will be able to trade as well as settle such trades which are for their proprietary accounts and on behalf of their clients; iii) Trading cum Clearing Brokers who will be allowed to perform trading and clearing functions for trades of their proprietary account and their clients' accounts as well as trades of other brokers and their clients. Enhanced capital requirements for brokers performing all three functions of trading, custody and clearing will be put in place to ensure that such brokers have sufficient resources and capabilities to cope with scenarios of risk and default.

- The concept of sound and well-capitalized Professional Clearing Members will be introduced for performing custody and settlement functions for brokers who will be allowed to perform trading functions only. This will also reduce the risks associated with assets under custody and settlement defaults.

- Requirements including public company structure, enhanced capital, corporate governance, additional reporting and human resource, and asset segregation mechanism and internal control requirements will be put in place for brokers who will have total assets under custody beyond a specified threshold and who will be allowed to perform trading as well as clearing and custody functions. The concept of liquid capital will be introduced in which not only all balance sheet items will be considered but off-balance sheet items (ranking liabilities such as underwriting commitments and guarantees etc.) will also be accounted for. Further, the haircuts on the assets will be applicable keeping in view the specific nature of every line item. Also, minimum net worth and paid-up capital requirements will be prescribed to address liquidity risk and ensure solvency of brokers. It is expected that introduction of liquid capital will minimize the liquidity, credit, operational and solvency risks of the securities brokers.

- The new regime will create more business opportunities for small brokers who will be able to setup trading business with minimal requirements while having the flexibility to choose clearing and custody with Professional Clearing members or Trading cum Clearing Brokers. The categorization is expected to increase broker outreach in the length and breadth of the country, thus addressing the issue of meagre investor base and limited access to capital market services.

- The new broker regime also encourages brokers to obtain management rating from a recognized credit rating company, and requires brokers to have a fit and proper board of directors, management and staff, standardization of back office functions, diversity and quality of broker's shareholder base, management of conflict of interest between different functions, internal control policies and procedures, etc.

b) Establishment of a Brokers' Association: Considering the important role of securities brokers in the market, the possibility of establishing a federal level brokers' association will be assessed which will act as an SRO in terms of compliance and regulatory oversight for those working in the brokerage industry. The said association will also provide an effective platform for the stockbroking community to voice their concerns to the government and regulatory bodies and ensure professional training and exposure to the brokers while creating awareness among them about capital market issues. Such association will be required to be recognized with the SECP under law to perform the role of an SRO or industry association.

c) Regulatory framework for Securities Advisers, Securities Managers, Underwriters, Share Registrars and Balloters: Under the Securities Act, 2015, a number of regulations are being framed for effective, efficient and streamlined regulation of the capital market; inter alia regulations covering provisions for investors' protection and conflict of interest for intermediaries providing investment advisory, corporate advisory, portfolio management, underwriting, share registration and balloting services in the capital market. These regulations will be focusing on clear policies, adequate disclosures, remuneration commensurate with the activities, specific prohibitions etc. and will cover areas such as business conduct, financial resources, accounting and audit, licensing and other aspects for these regulated persons.

   It is worth mentioning that in conformity with the Securities Act, the concept of securities adviser will be introduced separately from that of portfolio manager, to enable individuals and companies with specialized skills, knowledge and infrastructure to deliver targeted investment advice to their clients. This will fill a critical gap in the capital market by providing a framework for independent third party financial advice separate from brokers and mutual fund providers. It is expected that it would lead to expansion of outreach and play an important role in creating awareness about capital markets and products.

d) Establishment of a Centralized KYC Organization: At present, investors in the capital market have to undergo multiple tests/process of KYC requirement while opening accounts with different intermediaries in the mutual fund industry, brokerage business, insurance etc. In order to avoid the duplication and increase transparency in the KYC process while facilitating investors with one-time registration only, the set-up of a Centralized KYC Organization (CKO) for registration of investors and maintenance of their KYC records is envisaged. Under this mechanism an intermediary will collect and upload KYC information of its client in the centralized database through an automated functionality provided by the CKO. This will ensure that the KYC data used by CDC, NCCPL, brokers and traders is verified, well maintained and centralized and will eliminate duplication in the KYC process. Rules for establishment of CKO have been drafted and forwarded to the Federal Government for approval.

e) On-Line Financial Reporting System to Ascertain Financial Health of Market Intermediaries: From the standpoint of effective compliance, complete information about financials of the brokers and other intermediaries, who are custodian of investors' money and assets, is required by the SECP. An online system for submission of these financials is being developed. The said system will allow the SECP to foresee any possible chances of intermediary default well ahead of time and devise means for available recourse for the investors. Such system has already been put in place for the securities brokers. A comprehensive exercise is being undertaken along with PSX, CDC and NCCPL to identify and eliminate duplication of reporting requirements which securities brokers are required to make under different frameworks; this would make the reporting process efficient and reduce compliance cost.

f) Capacity Building of Market Intermediaries: To ensure that personnel employed with market intermediaries are qualified and adhere to professional and ethical standards, various certifications have been and will be introduced for capacity building and training of market intermediaries personnel, through the Institute of Financial Markets.

   Further, efforts will be undertaken for briefing capital market intermediaries for greater awareness about their responsibilities as per the applicable laws. One such example could be encouraging listed companies, especially companies in the KSE 100 index, to give periodic briefings to research analysts covering areas such as performance, financial statements, and price sensitive events, to help such analysts make recommendations on a realistic and reasonable basis.

g) Continuous Improvements in Requirements Applicable to Market Intermediaries: Presently, the Securities Act, 2015 provides for renewal of all regulated persons every year. In order to facilitate such intermediaries, the SECP may consider suitably amending the relevant law for extending validity of such licenses to a period for three years instead of one. Other similar requirements may also be looked into for facilitating and promoting the regulated activities.

4. PRODUCT AND MARKET DEVELOPMENT

Given the relative lack of availability of investment alternatives and little activity in the existing products, vigorous reforms are required to meet the investment needs and objectives of the investors. This will also result in increased participation by investors in the capital market. Following initiatives are envisaged for implementation in this context:

a) Development of Derivatives Market

In the last three decades, derivatives markets internationally have seen phenomenal growth. Some of the factors driving the growth of derivatives transactions include increased volatility in asset prices in financial markets and facilitation of leveraged transactions thereby decreasing the overall cost of hedging and innovations in the derivatives markets. In Pakistan, most of the capital market activity has been concentrated in equities, while the derivative segment has been mostly lackluster.

Further, given the comparative lack of investment alternatives in the Pakistani derivative market, initiatives to introduce/activate new/existing products for development of this segment would be undertaken. This includes efforts to boost activity in the index options segment for which regulatory framework is already in place. Trading in stock options would also be introduced at a later stage to broaden the scope of trading activity at the bourses, to provide investors with avenues to develop better investment and hedging strategies and to reduce element of speculation in the cash segment.

Although the market already has cash settled futures, there has been minimum activity in this product since its inception. In order to bring the derivative segment in line with international standards, measures would be undertaken to revive this segment by encouraging and incentivizing market making. Further, in order to develop the derivative segment, various options will be considered such as rationalization of margins and introduction of internationally acclaimed software/systems for computation of margins in the derivatives segment.

b) Introduction of new products and improvement of existing products in Equity/Leverage markets:

i) Reforms in Leveraged Products: In consultation with the stakeholders, the existing leveraged products, mainly Margin Financing System ("MFS") and Margin Trading System ("MTS") will be reviewed on regular basis in order to identify impediments and propose improvements in the same to make them more acceptable and attractive for the market participants. Also, the possibility of introducing Shariah-compliant leveraged products will be explored.

ii) Exchange Traded Funds: To add depth and diverse investment alternatives to the market, regulatory framework had been approved for Exchange Traded Funds (ETFs) for PSX. ETFs are globally popular investment product which allow investment in diversified portfolio of securities tracking a benchmark index and provide investors with benefits such as trading flexibility, overall portfolio diversification and transparency. Efforts will be made to boost activity in the said product.

c) Development of Debt Capital Market

Efficient and liquid debt markets can help mitigate the adverse impact of financial crises by providing an alternative source of financing. In Pakistan, the debt market has largely remained underdeveloped and effective measures need to be put in place to bridge this gap with other regional and modern economies. This Plan envisages implementation of following initiatives and measures:

i) Coordination Mechanism: There are three major stakeholders at the policy and regulatory level for the development of a robust and vibrant debt market i.e. Ministry of Finance (MOF), SECP and State Bank of Pakistan (SBP). It is imperative that a permanent and formal coordination mechanism in shape of debt capital market forum is put in place under the leadership of Finance Minister so that all policy level matters are addressed at this forum. At the same time, there should be an operational level committee consisting of PSX, banks, securities brokers and other stakeholders to identify bottlenecks and take or suggest measures for removal covering all aspects like legal, regulatory, operational, product, etc. Efforts will be made to put in place above so that coordinated efforts are made for the development of debt capital market including but not limited to areas like:

a. Strengthening of the public debt office at MOF

b. Primary market of government and corporate debt instruments

c. Secondary market trading of government and corporate debt instruments

d. Revamping of National Saving Scheme

e. New product development in particular in sphere of corporate debt and for overseas Pakistanis

f. Awareness and distribution mechanism for government and corporate debt instruments

ii) Establishment of a Neutral Bond Pricing Agency: Pricing of fixed income securities is an issue faced by various jurisdictions mainly due to their low trading volumes at the exchange where they are listed and also considering the fact that debt securities are primarily traded Over-The-Counter as opposed to equity securities. Various international jurisdictions have established bond pricing agencies which act as independent entities with the role to provide fair valuations of debt securities based on comprehensive data collection, validation, pricing, and dissemination to the stakeholders. The Pakistani capital market at present does not have any independent agency to provide such services. Valuation of only corporate debt is being carried out by MUFAP on an SECP specified criteria as an interim measure which is only utilized by mutual funds and creates conflicts of interest. While considering the importance of an independent bond pricing agency to the development of the debt market, draft rules covering licensing, business conduct, responsibilities, financial resource and fit and proper requirements for establishment of the same have been disseminated for public comments.

iii) Improved regulatory framework for Credit Rating Companies: Considering the important role performed by the credit rating companies and to ensure objectivity, independence and impartiality in the ratings given by the credit rating companies, a revised set of regulations are being framed, covering improved licensing, business conduct, composition of board of directors, fit and proper, financial resource, disclosures and avoidance of conflict of interest, accounting and audit requirements for these companies.

iv) Regulation for Issue of Short Term Shariah Compliant Securities: In order to enable corporates to raise funds from the capital market through issuance of short term Shariah compliant instruments as an alternate to the commercial papers, regulations for issue of Short Term Shariah compliant securities will be developed.

v) Review of the Companies (Asset Backed Securitization) Rules: In order to promote and facilitate the asset backed securitization in general and Islamic securitization in particular, the Companies (Asset Backed Securitization) Rules, 1999 will be revamped.

vi) Regulations for Debt Securities Trustee: To protect the interest of debt securities holders, comprehensive regulatory framework for debt securities trustees will be framed under the Securities Act, 2015, covering the licensing, business conduct, financial resource, fit and proper and accounting and audit requirements for the activity.

d) Development of Commodities Futures Market

Internationally, commodities futures markets are one of the fastest growing markets. Taking into account the potential offered by the local market and the global trends towards commodities, emphasis will be laid on growth and development of commodities futures market in Pakistan.

i) Corporatization of PMEX Members and Categorization of PMEX Brokers: Measures are being taken for facilitating corporatization of individual PMEX members and to ensure conversion of existing idle memberships to brokers in line with the essence of a demutualized exchange and to complement the trading activity of the exchange. PMEX has been assigned a deadline of December 31, 2016 to ensure that all individual brokers are corporatized as well as all members have become brokers. For inactive brokers, time period uptil June 30, 2016 has been provided. Further, various categories of brokers will be introduced in line with international best practices for which capital adequacy and risk management requirements will be prescribed accordingly.

ii) Diversification of Product Portfolio for Enhanced Activity and Expansion of PMEX Outreach: In coordination with the concerned stakeholders, measures would be taken to further diversify the existing product portfolio of the exchange in commodities. This will add depth to the market and provide investors with viable investment alternatives, and will also assist our local commodity market to contribute more positively towards broadening the investor base and the overall economic growth of the country. On the commodity side, futures contracts based on various popular commodities, especially agricultural commodities, will be considered for introduction. In line with this objective, futures contracts such as Brent Crude Oil, Mill Specific Sugar and Gold (Milli Ounces) have been listed on the Exchange. Further, research will be carried out for feasibility and introduction of and product design for industrial metals like copper, steel and zinc and for refined petroleum products in the longer run.

For expansion of PMEX outreach, arrangements would be put in place in the major agricultural centres of Lahore, Faisalabad, Rahimyar Khan and Multan. Further closer contact will be initiated and maintained with farmers, middlemen and other stakeholders for promotion of commodity trading. Also, to encourage trading in cotton and rice futures, revamping of the settlement process of physical contract, implementation of independent quality check, warehousing arrangements and delivery mechanism will be explored.

iii) Default Management Regulations for the Commodity Futures Market: In order to devise a comprehensive and clear procedure for addressing matters related to default by brokers of PMEX, the Default Management Regulations will be introduced as a separate set of regulations keeping in view the international best practices in this regard.

iv) Encouraging activity at PMEX: To encourage trading activity at the PMEX, the exchange would explore various options in coordination with the stakeholders:

- Considering that banks have an important role to play in futures markets, the possibility of allowing banks to trade in derivatives futures contracts will be assessed in consultation with SBP. Banks may also play the role of market maker providing liquidity and branch outreach to a futures exchange.
- Pursuant to promulgation of the Futures Market Act, 2016, efforts will be made to curb any unregulated activity out of the regulatory ambit in the commodities market to encourage documentation and development of commodities business in the country. To cater to this, following measures are being contemplated upon:
- Strict action against illegal operators by relevant authorities such FIA/NAB/SBP etc.
- A comprehensive media campaign (electronic & print) against such operators.
- Liaison with foreign regulatory counterparts in curbing unregulated activities.

e) Development of Islamic Capital Market

Introduction of Islamic Products and Shariah-Compliant Investment Alternatives: World over, Shariah-compliant products and services are growing at a faster rate than conventional financial and capital market products and services. For the development of an Islamic capital market and in line with global best practices, a Shariah Board comprising of Islamic scholars and market professionals has been set up. The purpose is to ensure that all products/services offered under the Islamic product/service umbrella are in complete conformity with the Shariah principles.

Also, development of innovative Shariah compliant institutions, products and services in order to deepen the capital market and attract both national and international pool of resources would be carried out. Efforts will be focused on creating a viable market for the effective mobilization of Islamic funds. Introduction of global mainstream Islamic products to Pakistani capital market, backed by supporting research, will be carried out so that investors can avail benefits of Shariah-compliant investment alternatives. Also, an Islamic products electronic platform may be set up at the stock exchange.

f) Introduction of Market Makers for all markets

Market makers worldwide are an effective tool for generating liquidity in a market by providing two-way quotes. Accordingly, market makers will be introduced for generating activity in markets such as SME counter, derivatives segment, debt capital market and commodities futures market. Incentive plans may be introduced for market makers such as waiver of exchange related costs, tax benefits, volume based incentives to market, waiver of minimum inventory requirement, etc. PSX will make efforts to boost market making in all segments and introduce software as per international standard for market making, and incentivizing market makers as already highlighted.

5. REFORMS FOR ISSUERS IN THE CAPITAL MARKET

The number of listings, in particular quality listings in a capital market signals the level of health and depth of that market. The decision of a company to go public sends a clear indication to potential investors that the company's management is willing to run the company in a transparent manner, by following all the prescribed disclosure requirements. Among the numerous benefits of listings, perhaps the most important are increased transparency and accountability, diversified ownership, ability to raise new capital for issuers, high reputation and rating for issuers, improved price discovery and increased liquidity in share prices of the company, improved corporate governance for shareholder protection and tax benefits for issuers. In continuity to what has already been highlighted in the challenges section, the number of quality listings needs to be increased by putting in place concrete initiatives. Further, controls and disclosures need to be reviewed and revised for ensuring greater transparency. Following reforms are envisaged:

a) Streamlining of the Listing process and regulatory framework for Public Offer of Securities, Private Placement and Disclosures in Prospectus: A comprehensive exercise will be carried out wherein the listing process for both debt and equity securities will be holistically reviewed to streamline the process. Further, under the Securities Act, 2015, separate rules for both public offer of securities and private placement, and rules covering the practice, conduct, functioning and regulation of bankers to the issue and advisors and consultants to the issue are being framed. Further, regulations are also being framed for licensing, criteria, functioning and operations of qualified institutional buyers. Additionally, role and responsibility of PSX, as a frontline regulator, is being assessed based on which IPO approval process will be streamlined so as to ensure that independent input is taken from specialists from accounting, governance, business, legal, etc. for the IPO applications.

b) Promotion of New Equity Listings: The small number of Initial Public Offerings (IPOs) in the past can be attributed to several factors including market conditions and insufficient focus of the capital market industry to attract privately held companies to list. Key steps that are being contemplated to tackle this issue include:

   1. Creating industry specific roundtables, conferences and summits to highlight benefits of listing;
   2. Setting up a panel of investment bankers/financial advisors to participate in IPO generation drive
   3. Devising process flows/Standard Operating Procedures for submission and approval of documents for IPOs to streamline the listing process.

c) Streamlining of the Book Building process to expand its outreach: The existing regulatory framework and the process of book building will be reviewed and streamlined to enable the investors in small cities and towns to participate in the book building of IPOs.

d) Road Map for Making IPO Application Electronically/Online: To facilitate investors, it has become essential to develop an IPO environment that facilitates the investors by giving benefits of automation and by reducing the turnaround time involved. For the same purpose, a road map will be developed in coordination with commercial banks for enabling investors to apply for IPOs online/electronically.

e) Efforts for success of SME Board: Earlier, an Over-the-Counter (OTC) market had been introduced to facilitate listing and trading of small cap companies. However, this counter remained inactive due to various factors, some associated with its operational and regulatory framework. To address the same, a separate board for listing and trading of shares of Small and Medium Enterprises (SMEs) has been set up at the PSX. Qualified Institutional Buyers and High Net-Worth Individual investors are allowed to trade in equity shares of SMEs on this board. The SME regulations introduced for the purpose put in place relaxed regulatory requirements to attract companies with small capital requirements. Efforts will be made to effectively market the same and attract SMEs for listings on this board. In this respect, the regulatory framework has already been rationalized to incentivize SMEs and book-building mechanism has been introduced for the SME market for improved price discovery and transparency. Further, market makers will be introduced in SME market to encourage activity.

f) Establishment of Audit Oversight Board: In line with the IOSCO recommendations and to ensure transparent reporting free from conflict, a non-industry controlled and independent audit oversight board will be established for oversight of auditors of public interest companies. Such board will be financially and operationally independent. In this respect, a joint committee of the SECP and the Institute of Chartered Accountants of Pakistan (ICAP) was formed to prepare recommendations for establishing an independent audit oversight setup for public interest company auditors in Pakistan, which has submitted its report after joint deliberation sessions. In its report, the committee has proposed certain amendments to the SECP Act to provide for the concept of audit oversight board which have been submitted for incorporation in the Act.

g) Measures to Improve Liquidity in the Market – Minimum Free Float Requirement: For active trading in the secondary market, one of the most important factors is availability of reasonable number of shares for trading which is referred as “free-float”. Presently, the illiquid listed securities at the stock exchange having insufficient free float make the price discovery mechanism inefficient. To address the same, listed companies will be required to ensure a certain percentage of minimum free float within a specified period of time. Also, it is envisaged that review of mechanism and reporting of free float shall be carried out.

Further, distinction will be created between companies meeting certain threshold of minimum free float and otherwise. It is expected that introduction of minimum free float requirement will encourage companies to issue more shares thereby enhancing liquidity in the capital market.

h) Implementation of Strategy for Action against Defaulting and Non-Performing Companies to Protect Minority Shareholders: The SECP had earlier devised a policy pertaining to dissemination of information and treatment of companies that have been delisted or are in defaulters' segment of the stock exchange, to ensure investor protection. The said policy has been further reviewed and improved with a view to protect the rights of the minority shareholders and promote a culture of enhanced regulatory compliance by listed companies. In this respect, detailed analysis of all such companies was conducted in the first phase and subsequently they were given opportunity to rectify their regulatory defaults. Way forward was devised separately for each company given the particular nature of defaults. In case of failure to rectify the default, necessary action has been initiated against such companies including imposition of fines, winding-up and liquidation. Ongoing implementation of the said strategy shall be ensured and active follow-up with such companies whose shares remain suspended on account of violation of various laws, shall be done for meeting regulatory requirements, to restore investor confidence.

i) Introduction of Treasury Stock: In order to introduce the concept of treasury stock in Pakistan for the first time, in line with international best practices, the Companies (Buy-Back of Shares) Regulations are in process, pursuant to approval of amendments in section 95A of the Companies Ordinance, 1984 by the Parliament. These Regulations will replace the Companies (Buy-Back of Shares) Rules, 1999. The introduction of treasury stock will allow companies to buy back their shares and provide exit opportunity for investors in a depressed market, while acting as a means to stabilize share prices of companies.

j) Awareness of Stock Splits: In case of highly valued shares whose shares have a high market price, the trading activity may get restricted due to in-affordability of lot size for such shares. Accordingly, the concept of stock split will be encouraged to generate market activity in such high priced shares.

k) Complete Dematerialization of CDS Eligible Securities: In order to bring liquidity and transparency and eliminate forgery and duplication of securities, it is envisaged that physical issuance of securities should be prohibited and all issued capital should be in dematerialized form. For this purpose necessary amendments have been proposed in the new draft Companies Bill.

l) Promotion of e-dividend: e-dividend enables companies to pay cash dividend through direct credit in the bank accounts of their shareholders instead of issuance of dividend warrants. This is an efficient and economical way of payment of cash dividend as it saves time and cost of both the companies and shareholders. Receipt of cash dividend through direct credit in the shareholders bank account is optional and is the discretion of the shareholders. So far not all shareholders of the listed companies have opted for e-dividend. Considering issues related to physical handling of dividend warrants which includes delays in dividend payments, handling and risk of unclaimed dividend warrants, issues relating to physical mailing address etc., it is envisaged that dividend mandate would be made mandatory and it would also be made mandatory for issuers to offer e-dividend facility to their shareholders.

m) Governance and other reforms for listed companies: In order to improve corporate governance standards for listed companies and bring them in line with international standards, the SECP had introduced the revised Code of Corporate Governance (the "Code") in April, 2012. Considering that a period of four years has passed since implementation of the revised Code, a comprehensive review of the same will be undertaken, taking into account feedback received over time from several quarters including the listed companies. The same is expected to bring further improvements to the Code and facilitate in removing any impracticalities being faced by the listed companies in compliance with the Code. Possibility of establishing a forum of independent directors will be explored, this forum will help sharing of experiences and suggesting practical measures to address and cater for different board level situations.

   Also, through the Draft Companies Bill, 2016, a number of governance reforms aimed at shareholder protection and facilitation are being introduced for the corporate sector, in particular for the listed companies. These include concept of independent directors, immunity to independent directors unless active involvement or negligence is proved, concept of specie dividend, e-voting, e-ballot, participation in AGMs through video-link etc.

n) Electronic filing of Returns of Beneficial Ownership: Presently, beneficial owners of listed companies are required to file their returns of beneficial ownership manually with the SECP. Since, the SECP has already launched e-services project which provides an opportunity to the companies for filing of periodic returns electronically, the project would be extended to enable and facilitate the beneficial owners of listed companies to also file their returns of beneficial ownership and tenderable gain reporting electronically.

6. REFORMS FOR INVESTORS' ACCESS, AWARENESS, PROTECTION AND FACILITATION

Investors are the most important stakeholders of the capital market. The foremost responsibility of the apex and frontline regulators is to ensure protection and safeguarding of investors' assets and interests. Also, as stated earlier, given the significantly low number of investors in the capital market, vigorous investor awareness and confidence building measures are required. For this purpose, following measures will be undertaken, in addition to other initiatives already stated:

a) Expansion and Outreach of Capital Market Entities: While considering expansion of market outreach to the masses, expansion of broker outreach cannot be ignored. Measures would be taken to expand investor access to the brokers' branch office network by setting up of branch offices in length and breadth of the country, and making use of technological innovations by promoting internet trading.

   Further, to increase the market outreach, the possibility of creating capital market hubs and expansion of the depository outreach to small investors through banking system branch network and post office network will be explored. The major banks in the country, on account of their comprehensive outreach are in a unique position to provide access of capital markets to the general public and custodial services though the banks network will result in a substantial broadening of the investor base in the country.

   Establishment of Capital Market Hubs in various cities of Pakistan will enhance the outreach of mutual funds, stockbrokers, leasing companies, investment banks, modarabas and insurance sector to encourage investors in remote areas. Capital market hub has already been established in Abbottabad and facilitation centers have been opened in major cities such as Sialkot. The hubs will enable asset management companies, brokerage firms and banks along with the CDC and stock exchange to open their branches in these cities, and will also enable the investors to benefit from the services of the participating entities in a one-stop-shop.

   The facilitation centers will provide the requisite information/assistance to the promoters of new companies as well as management of existing companies. This includes assistance in company incorporation, submission of applications/ returns through e-Services, e.g. change of company name, alteration in memorandum and articles of association change of company status etc.

b) Incentives and reforms for Overseas Pakistanis: Given that the overseas Pakistanis are major contributors to the country's balance of payments, reforms will be introduced for this segment. According to estimates, the overseas Pakistanis, spread around the globe, annually send around 18 billion USD in remittances. Most of the diaspora is centered in Middle East, USA, United Kingdom and Germany. Efforts will be made to explore opportunities for attracting investment from this segment into the capital market. This would including holding of roadshows and targeted awareness campaigns, setting up of facilitation centers or helpdesks at PSX and CDC, and collaboration with other departments for reaching out to overseas Pakistanis in order to create awareness and imparting financial education.

c) Expansion of Scope of Capital Market Services: To keep pace with international best practices and better utilize technology to service the investors, CDC had launched "Online Transactions" service, through which investors can move their securities online from their Investor Account to another account. The scope of this service will be enhanced and next generation mobile platform will be developed by CDC for the purpose. This platform will provide customers with the facility to access information and conduct business with CDC using their mobile phones in a secure and efficient manner.

   Also, CDC value-added services such as eStatements, eAlerts, SMS, Web access etc. would be promoted through nationwide campaigns to expand their outreach to current and potential investors. For this purpose, social media channels such as Twitter, Facebook, Linkedin etc. will also be utilized.

d) Investor Education Measures: The SECP has already undertaken an extensive investor education and awareness campaign under which a series of seminars are being held in collaboration with the stakeholders and a new Investor education web portal titled "Jama Punji" has been launched. The campaign will be further intensified for penetration and outreach to smaller cities and potential investors. Under the extensive Investor Education Plan undertaken by the SECP, education is being imparted to investors through both digital means – web portal, SMS and social media – and physical interaction via seminars and investor days. Targeted initiatives under this Plan include:

   - MOUs with various universities has been signed under which SECP is conducting regular seminars in these universities to impart knowledge to existing and incoming students about the basics of savings, financial planning, insurance, investing and capital markets. It is hoped that by educating university students through SECP's Jamapunji Investor Education Program, a new generation of financially literate investors, who are aware of their rights and responsibilities can be developed.

   - In continuation of the above, collaboration with Higher Education

Commission (HEC) is being formalized through an MOU. Under this MOU, following measures are being contemplated where HEC's support will be sought for:

- o extending its facility of online universities network to the SECP enabling telecast of SECP's JamaPunji seminars simultaneously to around 90 universities.
- o Supporting SECP's Faculty Development Program on "Investor Education". HEC may direct educational institution to report the progress on quarterly basis.
- o Possibility of launching independent mandatory course on "Personal Financial Planning" for the MBA programs will be explored to equip students with financial knowledge and applicable financial sector regulatory frameworks.

- For investor protection and education, regular Jamapunji public service messages are being published in national print media for raising investor education and awareness among the masses.
- SECP in collaboration with consultants is in the process of preparing a Master Guidebook on Investor Education. This Master Guidebook can be used as a reference material/text book for the students and will encompass the academic and regulatory aspects pertaining to the capital and non-bank financial market.
- In order to increase awareness regarding the commodities exchange, Pakistan Television (PTV) will be approached to provide free airtime for televising investor awareness programs related to commodities markets on a regular basis. Simple and common language will be used in these programs for better understanding and increased outreach to the general public.

e) Establishment of a centralized Investor Protection Fund: It is envisaged that the Investor Protection Funds (IPFs) of the former exchanges shall be transferred to the consolidated IPF of PSX which shall be established as required under the Securities Act, 2015, if there are no unsettled claims/ liabilities against said funds. However, in case of liabilities against an IPF, management of the fund till settlement of such claim/liability shall be entrusted to a committee to be constituted by the SECP. Once all liabilities are settled the IPFs shall be transferred to the consolidated IPF of PSX. Regulatory framework is also being developed for the centralized IPF under the Securities Act, 2015.

f) Efficient Investor Complaint/Dispute Registration and Resolution Process: Efficient and timely management of investor complaints and disputes is vital for protection of investors' interest and restoration of their confidence in the capital market. In this regard, the following initiatives will be explored:

   i) Efficient and online complaint filing mechanism;

   ii) Implementation of effective and well integrated complaint registration system at the SROs;

   iii) Defined timelines for resolving the customer complaints or reporting reasons for delay;

   iv) Defined timelines for resolution of the disputes pending under appeals or at the arbitration level at SROs;

   v) Course of action where the complaints or disputes are not resolved by the SROs within stipulated timeline.

g) Minority shareholder protection measures: To create an environment conducive for investment, it is imperative that appropriate safeguards are put in place to ensure interest of the minority shareholders in public listed companies. The present regulatory framework already encourages listed companies to ensure adequate minority representation on their boards and requires the presence of independent directors on their boards to ensure transparency and objectivity in the boards' decision-making process. Apart from investor education and awareness measures, the SECP is contemplating on giving enhanced responsibility to the Pakistan Institute of Corporate Governance (PICG) for carrying out important responsibilities with regards to shareholder protection. It is envisaged that PICG will assume the role of minority shareholders' watchdog in line with global best practices and may be made responsible for:

   i) Spearheading shareholder activism, particularly among retail and minority shareholders – to preserve shareholder rights, minimize risks to shareholders and ultimately enhance value to the capital market.

   ii) Building up credibility through active participation in AGMs and EGMs, where it may highlight concerns/issues relevant to retail/minority shareholders.

   iii) Taking initiatives for development of best practices for institutional shareholders.

   iv) Conducting yearly surveys of locally listed companies, such as the

Directors’ Remuneration Survey, Corporate Governance Survey and the Dividend Survey, and may provide proxy services for minority/retail investors.

It is also envisaged that PICG will establish an independent directors’ forum to facilitate exchange of ideas, best practices and consultation amongst independent directors in the country to strengthen independence.

Further, to enhance protection of rights of the minority shareholders, the SECP is working on a strategy to promote a culture of enhanced regulatory compliance by listed companies. The SECP strategy in this regard entails first giving due opportunity to companies to rectify regulatory defaults and in case of failure it provides procedures for taking necessary action against such companies including being wound-up/liquidated. In case of non-compliance with the directions, the company or its chief executive and directors shall be liable for action under the Securities Act which includes penalties of up to one hundred million in case of individual and up to two hundred million in case of a company.

h) Investor facilitation measures: The cornerstone of a fair, transparent and efficient capital market is investor protection and facilitation. As also stated in various sections above, a number of initiatives are in the pipeline, few of which are stated below:

- A road map will be developed in coordination with commercial banks for enabling investors to apply for IPOs online/electronically to facilitate investors by giving them benefits of automation and reduced turnaround time involved

- Given that e-dividend is an efficient and economical way of payment of cash dividend as it saves time and cost of both the companies and shareholders, it would be made mandatory for issuers to offer e-dividend facility to their shareholders.

- Efforts will be made through relevant legislation to prohibit physical issuance of securities and require all issued capital to be in dematerialized form, to do away with the numerous problems attached with physical shares, for investor facilitation.

i) Capital Market Development Fund: To undertake investor awareness and market outreach initiatives, a centralized capital market development fund will be established. The said fund will comprise of contributions from all relevant entities of the capital market. Further, as per new legislation, the amounts from unclaimed dividend and insurance claims will be transferred to the fund established for SECP for the purpose of investor education and awareness.

7. IMPROVING MARKETABILITY, IMAGE-BUILDING AND COMPLIANCE WITH INTERNATIONAL STANDARDS

Realizing the importance of mutual cooperation and image-building, efforts will be focused on improving coordination and liaison with the relevant Ministries, non-governmental and foreign institutions and counterparts and to improve Pakistan's image/ranking in the global forums. As a result of continuous efforts of all stakeholders, MSCI Pakistan Index has been reclassified as an Emerging Markets Index by the Morgan Stanley Capital International (MSCI) which is a leading provider of investment tools and benchmarks worldwide for global investors. The upgradation to the MSCI Emerging Markets is expected to result in tremendous benefits for the country as a whole and in particular for the capital and financial markets by encouraging investment inflow. In the coming years, the SECP and the stock exchange will make efforts to play active roles in the regional and international forums. Possibility of establishing cross-border listings and linkages will also be assessed. Following targeted initiatives are in the pipeline:

a) Marketing Pakistan as a whole - Well-structured and coordinated annual Pakistan Road Shows: To project Pakistan as a lucrative investment destination, Pakistan as a country needs to be marketed in a holistic manner. Fragmented efforts are being made at individual company level, trade fares organized by Government Agencies, Industry Associations or Individual Businesses; PSX, CDC, SECP, SBP, MUFAP etc.; and various governmental departments such as the Ministry of Finance, the Privatisation Commission and the Board of Investment. Co-ordinated efforts will be made amongst the various parties so as to get maximum mileage and at the same time have meaningful road shows in all relevant financial capitals of the world, along-with in local cities to target the potential investor base The possibility of a joint roundtable with all stakeholders to be held by the SECP and SBP on an annual basis, would be assessed, to have better interaction and knowledge transfer between all stakeholders. Following benefits of participation in the Pakistani market would be highlighted in the road shows:

   - Pakistan's history and track record of good experience of several MNCs and stable earnings in most of the blue-chip companies;
   - Evolution and implementation of good corporate governance practices in Pakistan over time;
   - Well-developed infrastructure for secondary market equity trading
   - Investor friendly tax regime;
   - Ownership control allowed in most industries to foreign investors and Pakistan ranking comparatively better than India on this score.

b) Improved compliance with International benchmarks including IOSCO Principles: To improve Pakistan's chances of attracting foreign as well as domestic investment, it will be marketed on various forums that Pakistan has made significant progress with regards to implementation of global benchmarks. Significant improvement has been made with regards to the level of compliance with the IOSCO benchmark principles of securities regulation – the compliance percentage for Pakistan has gone up from 37% in the year 2004 to 62% in the year 2015. Pakistan has been able to achieve fully-compliant or broadly-compliant status in relation to 23 IOSCO principles out of 37. Efforts will be made for achieving full or at least broad compliance with regards to the remaining principles.

ANNEXURE
ACTION PLAN – CMDP (2016-18)

1. LEGAL AND REGULATORY REFORMS

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion					
		SECP	PSX	CDC	NCCPL	PMEX	Relevant Section of CMDP
1	Futures Market Act, 2016	√ 2016-2017	√ 2016-2017		√ 2016-2017	√ 2016-2017	1. (a)
2	SECP Amendment Act	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	1. (b)
3	Amendments and Improvements to existing laws	√ 2016 ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	1. (c)

2. STRUCTURAL REFORMS AND DEVELOPMENTAL INITIATIVES AT THE SELF-REGULATORY ORGANIZTIONS - PSX, CDC, NCCPL, PMEX

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion					
		SECP	PSX	CDC	NCCPL	PMEX	Relevant Section of CMDP
4	Post integration reforms - Divestment of Shares and Self-Listing	√ 2016-2018	√ 2016-2018				2. (a)
5	Benchmarking of Central Counter Party (CCP) as per IOSCO principles	√ 2016-2018			√ 2016-2018		2. (b)
6	Phase II of the Transfer of Risk Management Function to NCCPL	√ 2016-2018			√ 2016-2018		2. (c)
7	Governance Reforms	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (d)

8	Strengthening of regulatory functions of SROs	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (e)
9	Technological partnerships	√ 2016-2018	√ 2016-2018		√ 2016-2018		2. (f)
10	Business Structure	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018		2. (g)
11	Business continuity	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (h)
12	Sustainability	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (i)
13	Review and revision of tariff structure	√ 2016-2017	√ 2016-2017	√ 2016-2017	√ 2016-2017		2. (j)
14	New Product Development	√ 2016 ongoing	√ 2016 ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	2. (k)
15	Capacity building of SROs for effective enforcement	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (l)
16	Enhanced collaboration with other regulatory bodies	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (m)
17	Implementation of Market Halts and Widening of Scrip Level Circuit Breakers	√ 2016-2017	√ 2016-2017				2. (n)
18	Strengthening surveillance capacity of the stock exchange	√ 2016-2017	√ 2016-2017				2. (o)
19	Measures for introducing technology, automation and standardization	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	2. (p)

3. REFORMS FOR CAPITAL MARKET INTERMEDIARIES

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion						
		SECP	PSX	CDC	NCCPL	PMEX	PICG/ IFM	Relevant Section of CMDP
20	New regulatory regime for Securities Brokers	√ 2016-2017	√ 2016-2017					3. (a)
21	Establishment of a Brokers' Association	√ 2016-2018	√ 2016-2018					3. (b)
22	Regulatory framework for Securities Advisers, Securities Managers, Underwriters, Share Registrars and Balloters	√ 2016-2017						3. (c)
23	Establishment of a Centralized KYC Organization	√ 2016-2018			√ 2016-2018			3. (d)
24	On-Line Financial Reporting System to Ascertain Financial Health of Market Intermediaries	√ 2016-2018						3. (e)
25	Capacity Building of Market Intermediaries	√ 2016-ongoing	√ 2016-ongoing				√ 2016-ongoing	3. (f)
26	Continuous Improvements in Requirements Applicable to Market Intermediaries	√ 2016-ongoing	√ 2016-ongoing					3. (g)

4. PRODUCT AND MARKET DEVELOPMENT

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion					
		SECP	PSX	CDC	NCCPL	PMEX	Relevant Section of CMDP
27	Development of Derivatives Market	√ 2016-2018	√ 2016-2018		√ 2016-2018		4. (a)
28	Introduction of new products and improvement of existing products in Equity/Leverage markets (Reforms in Leveraged Products; Exchange Traded Funds)	√ 2016-2018	√ 2016-2018		√ 2016-2018		4. (b)
	Development of Debt Capital Market						
29	Coordination Mechanism	√ 2016-2018	√ 2016-2018				4. (c)(i)
30	Establishment of a Neutral Bond Pricing Agency	√ 2016-2018					4. (c)(ii)
31	Improved regulatory framework for Credit Rating Companies	√ 2016-2017					4. (c)(iii)
32	Regulation for Issue of Short Term Shariah Compliant Securities	√ 2016-2018					4. (c)(iv)
33	Review of the Companies (Asset Backed Securitization) Rules	√ 2016-2018					4. (c)(v)
34	Regulations for Debt Securities Trustee	√ 2016-2017					4. (c)(vi)
	Development of Commodities Futures Market						
35	Corporatization of PMEX Members and Categorization of PMEX Brokers	√ 2016-2018				√ 2016-2018	4. (d)(i)

36	Diversification of Product Portfolio for Enhanced Activity and Expansion of PMEX Outreach	√ 2016-ongoing				√ 2016-ongoing	4. (d)(ii)
37	Default Management Regulations for the Commodity Futures Market	√ 2016-2017				√ 2016-2017	4. (d)(iii)
38	Encouraging activity at PMEX	√ 2016-ongoing				√ 2016-ongoing	4. (d)(iv)
39	Development of Islamic Capital Market - Introduction of Islamic Products and Shariah-Compliant Investment Alternatives	√ 2016-ongoing	√ 2016-ongoing		√ 2016-ongoing		4. (e)
40	Introduction of Market Makers for all markets	√ 2016-ongoing	√ 2016-ongoing			√ 2016-ongoing	4. (f)

5. REFORMS FOR ISSUERS IN THE CAPITAL MARKET

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion					
		SECP	PSX	CDC	NCCPL	PMEX	Relevant Section of CMDP
41	Streamlining of the Listing process and regulatory framework for Public Offer of Securities, Private Placement and Disclosures in Prospectus	√ 2016-2018	√ 2016-2018				5. (a)
42	Promotion of New Equity Listings	√ 2016-2018	√ 2016-2018				5. (b)
43	Streamlining of the Book Building process to expand its outreach	√ 2016-2018	√ 2016-2018				5. (c)
44	Road Map for Making IPO Application Electronically/Online	√ 2016-2017	√ 2016-2017				5. (d)

45	Efforts for success of SME Board	√ 2016-2018	√ 2016-2018				5. (e)
46	Establishment of Audit Oversight Board	√ 2016-2018					5. (f)
47	Measures to Improve Liquidity in the Market – Minimum Free Float Requirement	√ 2016-2017	√ 2016-2017				5. (g)
48	Implementation of Strategy for Action against Defaulting and Non-Performing Companies to Protect Minority Shareholders:	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing		5. (h)
49	Introduction of Treasury Stock	√ 2016-2018					5. (i)
50	Awareness of Stock Splits	√ 2016-2018					5. (j)
51	Complete Dematerialization of CDS Eligible Securities	√ 2016-2018		√ 2016-2018			5. (k)
52	Promotion of e-dividend	√ 2016-2017		√ 2016-2017			5. (l)
53	Governance and other reforms for listed companies	√ 2016-ongoing	√ 2016-ongoing				5. (m)
54	Electronic filing of Returns of Beneficial Ownership	√ 2016-2018					5. (n)

6. REFORMS FOR INVESTORS' ACCESS, AWARENESS, PROTECTION AND FACILITAION

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion						
		SECP	PSX	CDC	NCCPL	PMEX	PICG	Relevant Section of CMDP
55	Expansion and Outreach of Capital Market Entities	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	6. (a)
56	Incentives and reforms for Overseas Pakistanis	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing				6. (b)
57	Expansion of Scope of Capital Market Services	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing		6. (c)
58	Investor Education Measures	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	6. (d)
59	Establishment of a centralized Investor Protection Fund	√ 2016-2017	√ 2016-2017					6. (e)
60	Efficient Investor Complaint/ Dispute Registration and Resolution Process	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018		6. (f)
61	Minority shareholder protection measures	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	6. (g)
62	Investor facilitation measures	√ 2016-2018	√ 2016-2018	√ 2016-2018				6. (h)
63	Capital Market Development Fund	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018	√ 2016-2018		6. (i)

7. IMPROVING MARKETABILITY, IMAGE-BUILDING AND COMPLIANCE WITH INTERNATIONAL STANDARDS

S. No.	Initiative	Responsible and Coordinating Organizations/Departments & Timelines for Completion					
		SECP	PSX	CDC	NCCPL	PMEX	Relevant Section of CMDP
64	Marketing Pakistan as a whole - Well-structured and coordinated annual Pakistan Road Shows	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	7. (a)
65	Improved compliance with International benchmarks including IOSCO Principles	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	√ 2016-ongoing	7. (b)

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