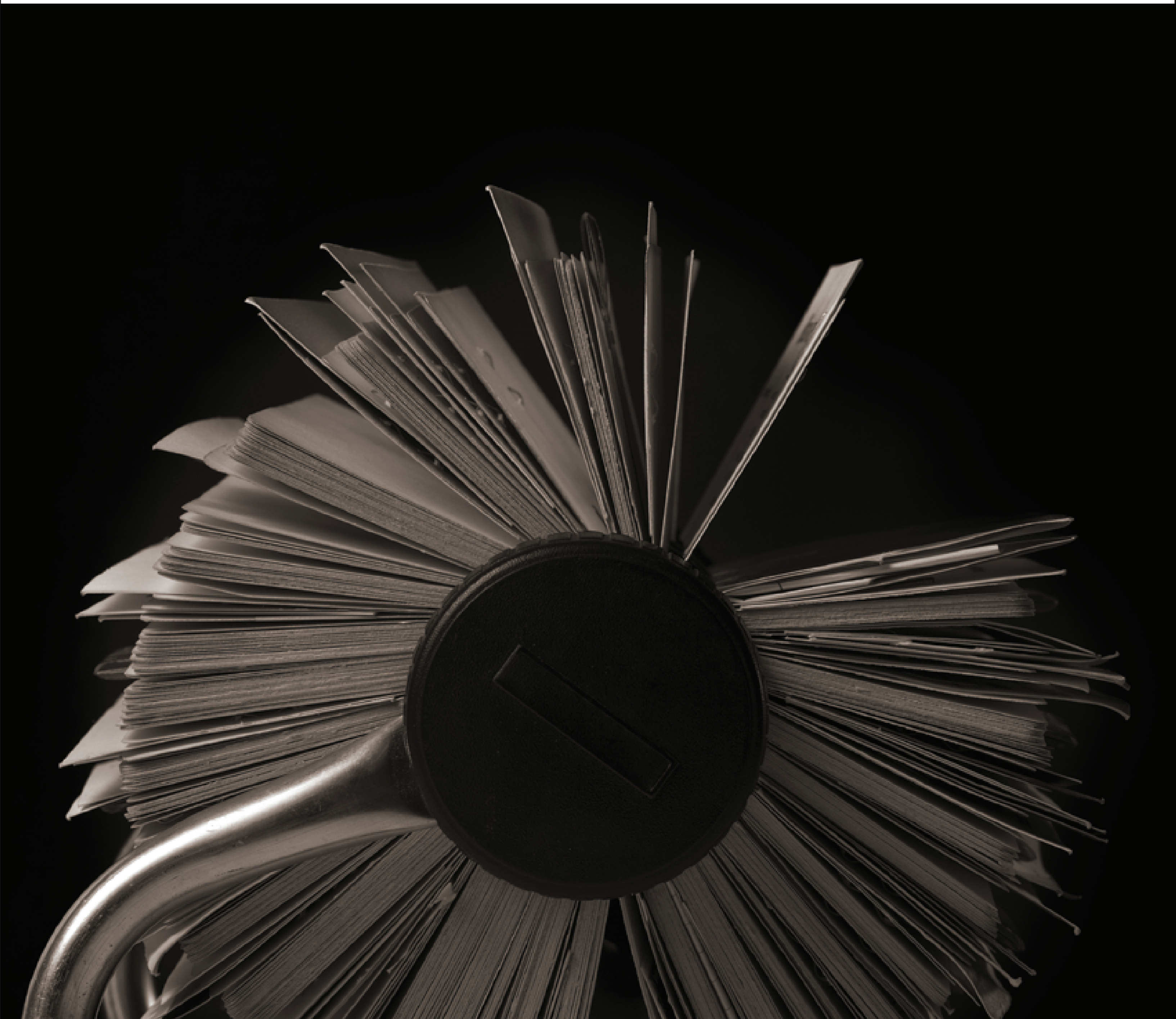
ANNUAL REPORT 2011

Securities and Exchange Commission of Pakistan

بسم الله الرحمن الرحيم

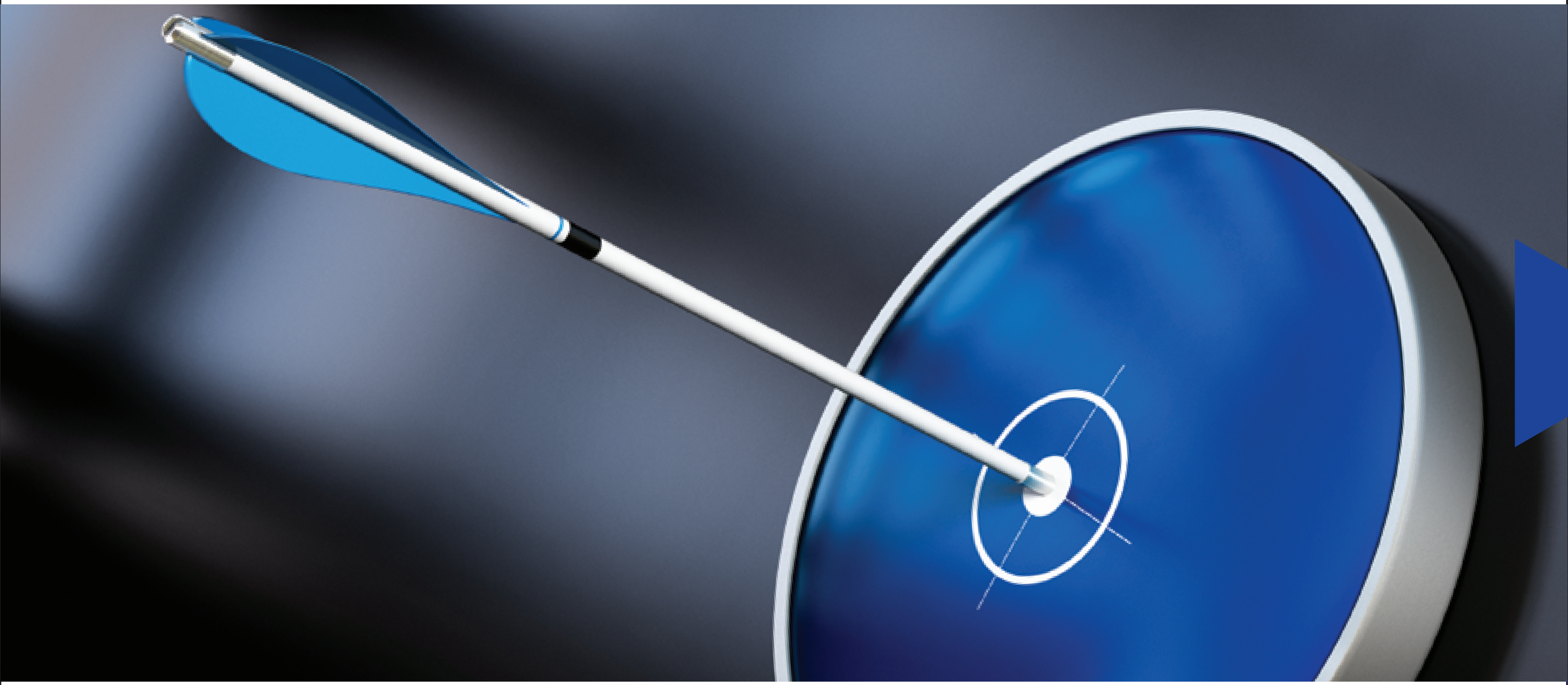
This report has been prepared
in pursuance of Section 25 of the Securities and Exchange
Commission of Pakistan Act, 1997, for the purpose of reporting
the activities and performance of the Securities and Exchange
Commission of Pakistan during the period
from July 1, 2010 to June 30, 2011.

Table of Contents



Vision

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



Strategy

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

Mission

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

Chairman's Message

When I joined the Securities and Exchange Commission of Pakistan (SECP) towards the end of 2010, I had a fair idea about the challenges that lay ahead of me. However, the real enormity of the task struck me when I interacted with the stakeholders. The balancing act that one has to play as a vigilant regulator on the one hand and a facilitator and market developer on the other is a difficult task to perform, but at the same time is the most critical success factor for a regulator.

It is an established fact that a vibrant and stable financial sector plays 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 - across all the segments of the society. Unfortunately, this is not the case in Pakistan where the banking and non-banking financial sectors have failed on this account. Banking sector, despite having dominant position and privatization has not come up with innovative products to adequately meet the 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. Today our capital markets are going through one of the toughest periods ever, as market capitalization has come down to $31.9 billion, less than half of what it was three years ago. Turnover, in the backdrop of market closure in 2008 and imposition of capital gain tax, is less than 10% of what it was six years ago and new listings from good quality corporate houses remain undersubscribed. There are less than 200,000 registered investors in the capital market of whom a large number are inactive, and there are less than 150,000 unit holders in the mutual fund industry. Insurance penetration, at 0.7% is one of the lowest in the world; private pension investors are less than 2,000; while investment banking, housing finance and leasing sectors are struggling for survival. In comparison with regional economies, market capitalization as a percentage of GDP is only 20.34% in Pakistan compared to 41% in Sri Lanka, 44% in China, 84% in Thailand, 94% in India and 185% in Malaysia.

A similar state of affairs exists in the corporate sector of Pakistan. As of June 30, 2011, there were 59,417 incorporated companies of which 20% are inactive. Our fiscal structure is not conducive to corporatization since income tax rates are higher for companies in comparison to other business structures like partnerships or proprietorships. This coupled with a presumptive tax regime and various tax exemptions discourage documentation and the general culture of corporatization in trading, industrial and agriculture sectors.

These facts and figures clearly suggest that a lot needs to be done to achieve a vibrant non-banking financial market – capital markets, non-banking financial sector, insurance sector – and corporate sector in Pakistan. Areas of concern include lack of access to finance for the majority and the non-availability of a wide range of financial products in order to meet the saving and investment needs of the wider segments of the society. Similarly, innovative insurance products that impact the grassroots levels, private pension systems with active participation from the youth, and structures which encourage and promote entrepreneurship need to be developed. There is also a need to create a general culture of documentation, and have a consistent fiscal policy across sectors which encourage savings, investments and corporatization.

Every challenge presents its own set of opportunities. In order to meet these challenges a concerted effort needs to be made on seven fronts, i.e., legal and regulatory reforms; fiscal reforms; setting up of a Council of Financial Sector Regulators; measures to restore investor confidence; encourage and promote entrepreneurship; improved regulatory measures; and internal reforms. Each of these is equally important and need to be developed side by side, in order that they supplement each other, and cohesively contribute to overcoming the challenges faced by the financial sector of Pakistan.

Legal Reforms

A strong legal and regulatory framework is critical for the development of financial markets, as it provides the basic structure for product innovation and market integrity. It also enables regulators to maintain investor confidence in the financial markets. Therefore, in order to bring our legal and regulatory framework on a par with the international standards, the SECP in 2004-05 embarked upon a comprehensive exercise of revamping key laws pertaining to capital markets and corporate sector. After years of hard work and numerous consultative processes, today we have five draft laws which are at different stages of approval. These are:

1. Stock Exchanges (Corporatization, Demutualization and Integration) Bill
2. SECP (Regulation and Enforcement) Bill
3. Securities Bill
4. Futures Trading Bill
5. Corporate Rehabilitation Bill

The first three which are under consideration by the parliament would go a long way in bringing about structural reforms in our capital markets, thereby boosting investor confidence and protection, strengthening the enforcement ability of the SECP in terms of its mandate, and improving the quality of intermediaries operating in our financial markets.

Of particular importance is the proposed law on demutualization of the stock exchanges and its significance for the growth and strengthening of capital markets in Pakistan, which will effectively create a distinction between ownership rights and management functions in a stock exchange. The resulting flow of division of labor would lead to specialization. In light of international precedents of demutualization over the last 15 years, this process will eventually aim at a more clearly defined regulatory role of front line and apex regulators, along with segregation of commercial activities and regulatory functions at the exchange level.

The latter two draft laws are pending with the government and will be presented to parliament for approval. The Futures Trading Bill will provide the necessary framework for a vibrant futures market, particularly in respect of commodities, and the importance of this law cannot be overemphasized for an agrarian economy like Pakistan's. The Corporate Rehabilitation Bill will provide the necessary framework to revive sick companies thereby releasing capital and creating employment.

I am pleased to say that the SECP has also revived work on drafting of a new corporate law by reconstituting the Corporate Law Review Commission. An ambitious target of eighteen months has been set to draft the law and initiate public consultation. Insha'Allah work will also start soon on developing or revamping statutes pertaining to insurance, non-banking finance companies (NBFC) and private pensions. For these efforts to be realized, I will take this opportunity to seek support from parliamentarians and all other relevant stakeholders in order that the significance of these laws is fully appreciated by their early enactment and implementation.

Fiscal Reforms

Fiscal discipline and measures have a direct and profound impact on the structure and functioning of the financial markets. An efficient, equitable and broad-based tax system and a culture of corporatization are interdependent. The quantum and manner in which a government borrows has a direct impact on the structure of financial markets while tax levels determine the efficient allocation of savings and investments. Pakistan's tax-to-GDP ratio is among the lowest in the world, primarily because the tax revenue is collected from a very narrow base. This can be changed by encouraging a culture of corporatization and consequently, documentation, by rationalizing tax rates accordingly. As a second step, presumptive tax regime and exemptions given to various sectors should be removed to achieve sustainable tax revenue.

For efficient channeling of savings and investments and to develop a long term investable pool of funds, incentives should be given to long term savings like insurance and private pensions. Further, investments in different asset classes should be given the same tax treatment, in order to avoid distortion and misallocation of resources, as has happened in the case of the capital gains tax imposed on trading at stock exchanges, while investment in other asset classes remained exempt. Specific short-term measures are also needed for development of different segments of the non-banking financial markets such as bond market, real estate investment funds, infrastructure bonds, private equity, etc.

Council of Financial Sector Regulators

Events that unfolded during and after the global financial crisis of 2008 defined the need for coordination at a national and international level between the financial sector regulators and governments. Coordinated efforts were made by financial sector regulators across the globe to arrest the financial meltdown. Pakistan witnessed a liquidity crunch in all segments of its financial markets, in particular the non-banking financial sector. To address any such possible situation in future and to provide a framework for coordinated efforts to develop our financial markets, I strongly feel that a Council of Financial Regulators headed by Minister of Finance needs to be set up as soon as possible, with the objective of reviewing systemic risks, structural issues with existing systems, and providing guidance with respect to policies and their effective implementation. Ideally, given the significance and impact of fiscal discipline and measures on the financial markets, the Federal Board of Revenue should also be represented on this council.

Skeptics may prefer a bilateral approach instead of the proposed set-up, but I firmly believe that keeping in view past experiences and future challenges faced by our economy and financial markets, an effective and efficient decision-making requires a coordinated effort and this arrangement would go a long way in achieving this objective.

Measures to Restore Investor Confidence

Post-2008 global financial crisis, investor confidence is at its lowest in many countries and Pakistan is no exception, which underlines the need for developing a comprehensive investor education program with participation from all stakeholders. This will help investors take informed decisions, educate the masses regarding unscrupulous investment schemes and unfair market practices, and improve the outreach of financial markets.

Further, for the purposes of ensuring that investors feel comfortable in investing their money, there should be strong and well-managed intermediaries operating in the non-banking financial markets. In order to achieve this, not only should sponsors and managers of these intermediaries pass the prescribed fit and proper test but should also be encouraged to focus on self-regulation and share responsibility towards development of the markets. To this end, the SECP has initiated work regarding the insurance and brokerage industry and further measures will be taken once pending laws are enacted, as these will provide the requisite framework in this respect.

Also, in line with international certification practices, the Institute of Capital Markets (ICM) was set up for the purpose of providing certification requirements for individuals and institutions engaged in providing investment advice and services for financial products. This institute will be at the forefront in this regard, along with being responsible for providing investor education. I am pleased to say that measures are being taken to revamp the operations of ICM to achieve envisaged results. This will boost investor confidence as a technically trained and well-regulated work force operating in the financial markets is better able to assess the risk appetite and match it with the appropriate products so that the expected or desired return is achieved at a tolerable risk level.

Primarily however, investor confidence can only be fully restored when the markets are efficient, fair and transparent and people engaged in unfair practices are caught and punished. Over the last few years, the SECP has invested heavily in human resource development and technology, as a result of which a number of insider trading and market manipulation cases have been detected. Going forward, we will further build our capacity to better analyze financial statements of listed companies and protect interest of minority shareholders.

Globally, aggrieved investors look for speedy justice and this is achieved by giving necessary powers and flexibility to the regulators and setting up of special courts. In Pakistan, this problem is further exacerbated when delays are faced in courts where either the SECP or a regulatee approaches these already overburdened forums for both interim and final relief. The SECP (Regulation and Enforcement) Bill seeks to resolve this issue as it envisages specialized tribunals dealing only with matters pertaining to the mandate of the SECP. As a result, case disposal will be accelerated and justice will be served more efficiently.

Encourage Entrepreneurship

Entrepreneurship is considered the backbone of all progressive economies as it is a key source of economic growth and dynamism. Pakistan too has a large, inexpensive and talented pool of labor available, which provides a tremendous opportunity to our entrepreneurs to compete in the global markets especially in today's age of technological advances. One factor that inhibits entrepreneurial growth is lack of access to finance, especially at the SME level. The gap between human and financial capital discourages entrepreneurship, and rent seeking is encouraged instead of actual business activity. No nation has achieved economic progress by investing their savings in fixed income instruments instead of businesses.

The non-banking financial sector can play a very important role in bridging this gap, by providing a source of financing for entrepreneurs and an investment vehicle for investors. Mid-size financial institutions are needed, which can meet the financing needs of the SME sector – be it in the shape of traditional modes of finance, such as working capital and project financing or in the form of modern financing such as private equity and venture capital. Accordingly, the SECP is revisiting the regulatory regime for NBFC and the framework for private equity and venture capital in consultation with the stakeholders. I firmly believe that with the right mix of fiscal incentives, the potential of the SME sector can be unlocked.

Regulatory Measures

For the development of non-banking financial markets and corporate sector, the SECP is focusing on a number of fronts. The SECP recently completed extensive stakeholder consultations for revamping the Code of Corporate Governance (CCG), a step towards further development of governance practices and culture in Pakistan. Governance standards have been raised to bring them at par with international standards. Here I would like to appreciate the untiring efforts of the Pakistan Institute of Corporate Governance (PICG) Task Force on revamping of the CCG. Similar codes are needed for state-owned enterprises and non-profit associations, especially the former, because of the negative impact which poor governance practices in SOEs have on the national exchequer. The government has already established a task force for this purpose, with active participation from the SECP, which has submitted a draft code for the review of the task force members.

The quality of information intermediaries – auditors, cost auditors, rating agencies, financial analysts, etc. -- is central to better quality investment decisions by both individual and institutional investors, and accordingly, the SECP intends to have better oversight of operations of these intermediaries and be more proactive across the board.

Just as fiscal measures are critical to corporatization, equally important is the need to develop a comprehensive corporatization policy and measures to address the needs of key sectors of the economy. Here, I will touch upon one important sector which is the backbone of our economy, i.e., agriculture. Despite past efforts, the time has come to take a fresh look at this sector, with input from all stakeholders, and finalize a national policy to corporatize agriculture especially in the wake of concerns about food security, depleting water resources, increasing input cost and changing climate pattern. Corporatization with proper incentives would bring the required transparency, consolidation of land holdings and much needed funding for modernization and research into yield improvement.

Leveraging of technology, especially the internet and mobile telephony, to improve efficiency, reduce cost of transactions and to expand the outreach of financial markets to far flung areas. The introduction of e-services by the SECP has revolutionized the company incorporation process and we intend to expand this service for financial filings. Similarly there is a need to bring in automation in corporate actions through introduction of e-dividend payment, e-voting for corporate elections, and e-application for initial public offers. I would also request market participants to look at their processes for maximum automation and assure them of the SECP's support in all such efforts.

The development of the insurance sector is one of the high priority areas for the SECP, since insurance penetration in Pakistan is one of the lowest in the world. As a starting point, the SECP insurance team is being strengthened and work has been initiated in areas like micro insurance, crop insurance, establishing a local reinsurance terrorism pool, health insurance and Islamic insurance.

Though Islamic products exist in the non-banking financial markets in the shape of Islamic mutual funds, Islamic pension funds, sukuk and modaraba, the growth has been lackluster due to an incoherent policy and framework. A holistic approach needs to be taken whereby both financial and Shariah experts are brought under one umbrella for a more thorough understanding of such products. In this regard, a specialized unit is being set up at the SECP to review the existing and proposed Islamic products to cater to investor needs.

Internal Reforms

While all the above reforms are of prime importance, also significant is the fact that organizational design and structure of the SECP remains effective to meet its objectives. We have therefore initiated a review to improve our organizational governance and effectiveness.

In order to devise a strategic vision and direction for the SECP, organization-wide objectives have been set for the next three years, with yearly targets. Broadly speaking, these objectives are based on five factors: developing markets in line with best international practices; ensuring that regulated entities are self-sustaining; refining processes to improve turnaround time; developing the inherent potential of our people; and acting responsibly with regard to finances. Further, the roles and responsibilities of the employees of the SECP are clearly defined and we are strengthening a culture of accountability.

The SECP employees are its most important asset. In order to fulfill its wide regulatory mandate, a diverse skill set is required including legal, financial, accounting, capital market, insurance, pensions, risk management, and business. Additionally, training and development is critical to keeping abreast with developments taking place internationally, for determining improved solutions for regulatory enforcement and market development. Efforts are being made to invite international trainers and practitioners to Pakistan so that cost-effective capacity building is imparted to the SECP employees and also to relevant market participants.

In conclusion, I would like to express my profound gratitude and appreciation to my predecessors, whose efforts and commitment have established the SECP on strong footings. I would also like to thank the Minister of Finance for his constant support and encouragement. I am grateful to the Chairman and members of the Policy Board, Commissioners and senior management team for their guidance and hard work during the year. The zeal and commitment of the SECP staff is commendable and has helped it succeed in meeting various goals and objectives. I would also like to thank the market participants and stakeholders for their invaluable feedback and suggestions.

There are numerous challenges that lie ahead but I am confident that the SECP, together with market participants and stakeholders, will achieve the objective of reinvigorating the non-banking financial markets and corporate sector to fuel economic growth of the country and set examples at regional and international levels.

Strategic Objectives 2011 - 2014

Sectors/Markets

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

Capabilities/Processes

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

People

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

Regulatees

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

Financials

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

Whom and How We Regulate

Company Law Division

Whom		How	Responsible Departments	Number of Employees
Type	Number			
Public limited companies	2,855	■ Register companies through physical filing and eservices (online) ■ Issue certificate of commencement of business ■ Grant license to non-profit associations ■ Examine and record statutory returns ■ Handle alterations to Memorandum and Articles of Association ■ Process mortgages/charges related matters ■ Issue certified true copies ■ Facilitate inspection of companies' record ■ Grant approvals and permissions under the Ordinance ■ Perform statutory powers of Registrar of companies ■ Perform delegated powers of the Commission ■ Monitor and enforce compliance with the statutory requirements ■ Adjudicate on defaults and process appeals, revisions and review applications, where filed ■ Handling winding up and strike off names of companies from the register ■ Liaise with international jurisdictions ■ Develop legal framework with respect to all companies except listed & specialized companies ■ Improve facilitation mechanism including eServices and facilitation schemes	Corporatization and Compliance Department and 8 Company Registration Offices	176
Private companies	53,750			
Single member companies	1,225			
Companies limited by guarantee	73			
Non-profit associations	713			
Foreign companies	798			
Unlimited companies	3			
	59,417			
Listed companies	648	■ Monitor regulatory compliance by companies including proper disclosures. ■ Process for approval issue of shares otherwise than right, preference shares and shares at a discount. ■ Conduct inspections, special investigations and take administrative action where required. ■ Enforcement of corporate and takeover laws ■ Adjudicate on defaults and process appeals, revisions and review applications, where filed ■ Propose and/or amend rules and regulations for authorization/operation/ internal control of companies. ■ Review documents/reports prepared by financial advisors, property valuers and auditors.	Enforcement Department	35
Unlisted public limited companies and private limited companies with a paid-up capital of Rs7.5 million and above (excluding NBFCs and notified entities, REIT schemes, private equity and venture funds, modaraba, insurance companies and stock brokerage houses)	9,878			
Companies registered in terms of provisions of Sections 42 and 43 of the Companies Ordinance, 1984 (excluding the stock exchanges)				

Securities Market Division

Whom		How	Responsible Departments	Number of Employees
Type	Number			
Stock exchanges ■ Karachi Stock Exchange (KSE) ■ Lahore Stock Exchange (LSE) ■ Islamabad Stock Exchange (ISE)	3	■ Issue and renew licenses to stock exchanges, securities depository and clearing companies ■ Handle all policy and regulatory matters relating to the stock and commodity exchanges, CDC and NCCPL ■ Devise and propose rules pertaining to these entities for the approval by the Federal Government	Policy, Regulation and Develop-ment Department	10
Central Depository Company of Pakistan Limited (CDC)	1	■ Approve amendments to the regulatory framework of these entities		
National Clearing Company of Pakistan Limited (NCCPL)	1	■ Grant approval for new products/systems launch and to other operational activities of these entities		
Pakistan Mercantile Exchange Limited (PMEX)	1	■ Appoint non-member directors on the boards of stock exchanges, CDC and NCCPL		
PMEX brokers	101	■ Grant approvals to registrations and renewals of the PMEX brokers		
Exchanges, depository and clearing company	6	■ Monitoring and surveillance of the trading activity of all the market participants. ■ Ensure compliance with all relevant laws. ■ Conduct investigations/enquiries on detection of market abuse or malpractice.	Monitoring, Surveillance and Capital Issue Department	31
Members of the stock exchanges	276	■ Adjudicate on violations		
Agents of the stock brokers	422	■ Issue and renew certificates of registration of brokers and agents. ■ Redress investor complaints received against the brokers, agents and stock exchanges. ■ Monitor and initiate action against unregistered brokerage houses.		
Directors, chief execu-tives, managing directors, chief accountants and shareholders with more than 10% shareholding of listed companies	All listed compa nies	■ Examination of returns of beneficial ownership.		
Fresh capital issue process for both debt and equity and intermediaries involved in the process: ■ Issuer/offerers ■ Consultant to the issue ■ Underwriters		■ Approve prospectus and/or offer document for issuance and public offering of securities. ■ Issue licenses to special purpose vehicles. ■ Approve Employees Stock Option Schemes ■ Monitor intermediaries associated with IPOs. ■ Issue rules and regulations, guidelines governing securities issuance and offering, and suggest amendments therein. ■ Handle complaints against issuers, share registrar and transfer agents, consultants to the issue/offerer		

Whom		How	Responsible Departments	Number of Employees
Type	Number			
■ Bankers to the issue Share registrars, transfer agents and balloters		■ Process cases of multiple and fictitious IPO applications under Section 18A of the Securities and Exchange Ordinance, 1969	Registration Department and 8 Company Registration Offices	176
Credit rating companies	2	■ Register and monitor credit rating companies including review and development of relevant regulatory framework		

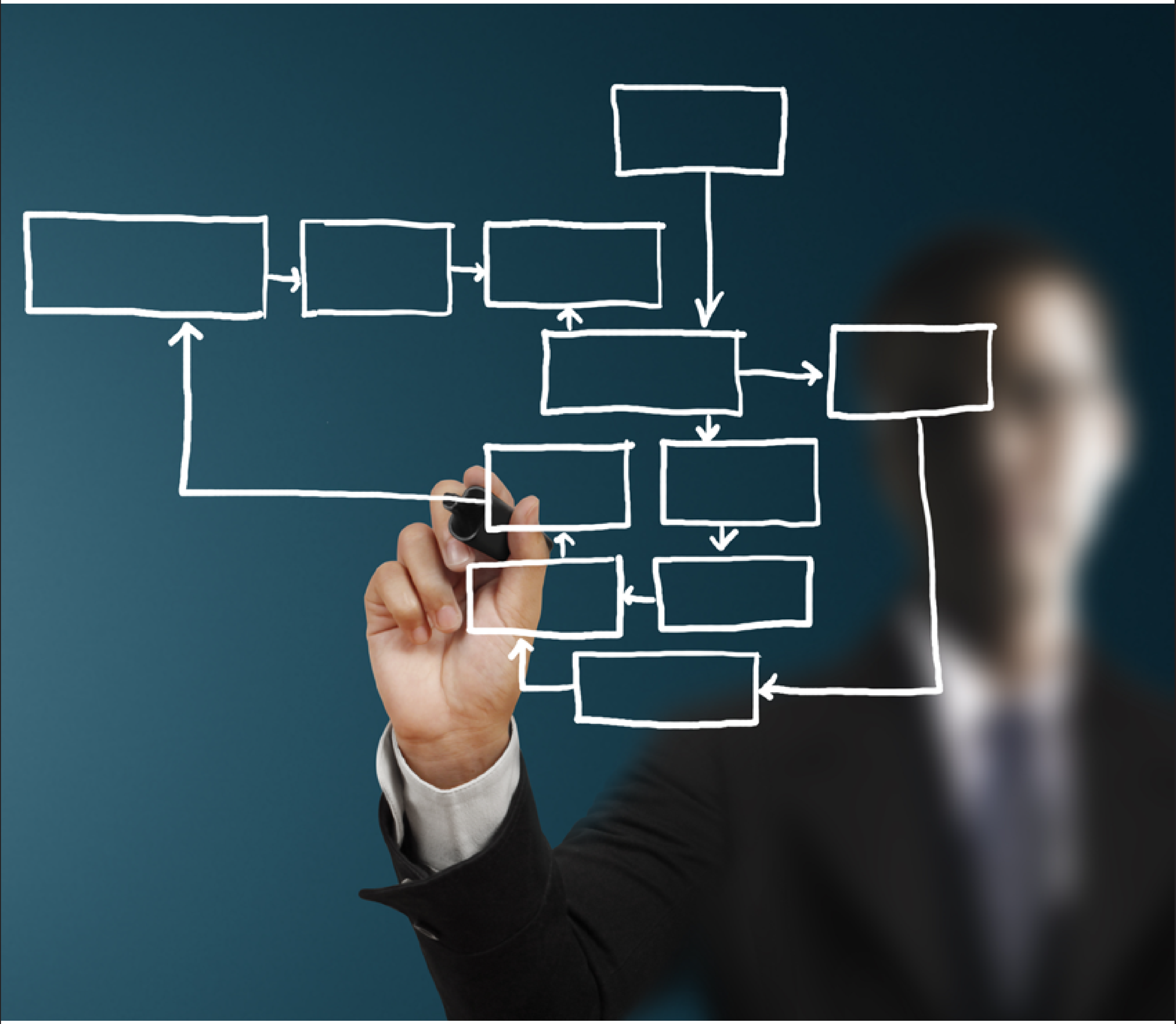
Specialized Companies Division

Whom		How	Responsible Departments	Number of Employees
Type	Number			
Asset management companies	28	■ License, regulate and devise policies for the mutual funds industry	Policy, Regulation and Development Department	30
Investment advisors	23	■ License, regulate and devise policies for leasing, investment banks & housing finance		
Mutual funds	136	■ Register, regulate and devise policies for the modaraba companies		
Leasing	9			
Investment finance services	7	■ License, regulate and devise policies for pension funds, REITS and private equity	Supervision Department	22
Housing finance services	1	■ Conduct off-site monitoring and surveillance on the basis of returns filed by the market intermediaries operating in the NBFCs and modaraba sectors		
Modaraba companies	40			
Modarabas	26			
Pension fund managers	6	■ Conduct risk-based and periodic on-site inspections of all licensed NBFCs and modaraba entities		
Pension funds	9			
REIT management companies	2	■ Undertake enforcement actions based on violations detected during the off-site and on-site processes		
Private equity companies (PE) and venture capital companies (VC)	3			
		■ Adjudicate on defaults and process revisions and review applications, where filed		

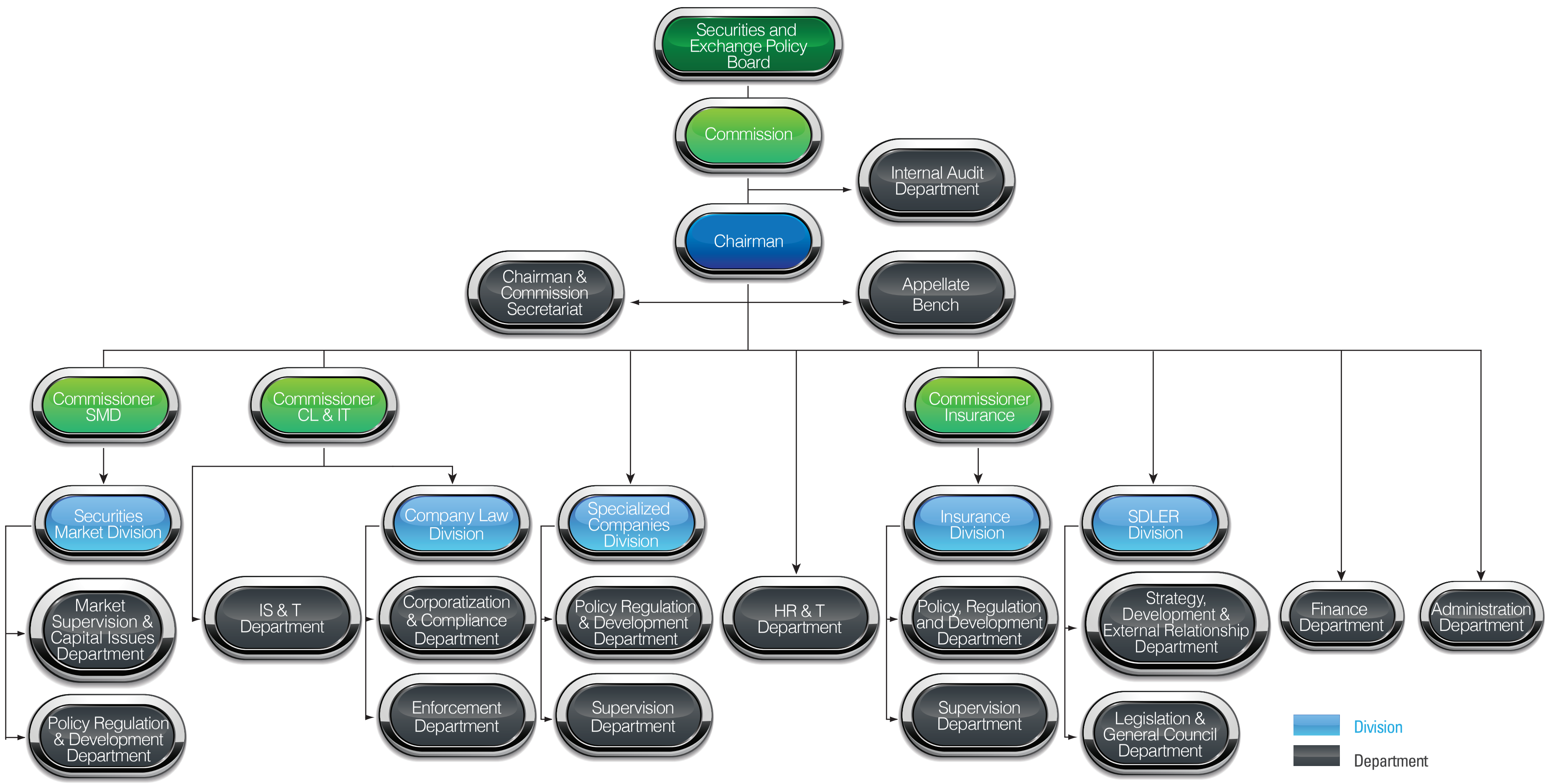
Insurance Companies Division

Whom		How	Responsible Departments	Number of Employees
Type	Number			
Life insurance companies	7	■ License, regulate and devise policies for the insurance sector	Policy, Regulation and Development Department	20
Non-life insurance companies	36	■ Conduct off-site monitoring and surveillance on the basis of returns filed by the insurance companies		
Takaful operator	5			
Local re-insurers	1	■ Conduct risk-based and periodic on-site inspections of the insurance companies	Supervision Department	
Surveying companies	283			
Insurance brokers	5	■ Undertake enforcement actions based on violations detected during the off-site and on-site processes		
Authorized surveying officers	462			
		■ Adjudicate on violations		
		■ Strengthening the legal framework		

The Organization



Organizatioal Structure of The SECP



4.1 The Securities and Exchange Policy Board

The Securities and Exchange Commission of Pakistan Act, 1997 (the SECP Act) provides that the Federal Government shall appoint a Securities and Exchange Policy Board (Policy Board) consisting of nine members, of which five shall be from the public sector and four from the private sector. The ex-officio members are Secretary, Finance Division; Secretary, Law and Justice Division; Secretary, Commerce Division; Chairman, Securities and Exchange Commission of Pakistan (SECP); and Deputy Governor, State Bank of Pakistan (SBP) nominated by the Governor, SBP. The Federal Government has appointed the Secretary, Finance Division as the Chairman of the Policy Board.

During the year under review, Mr. Salman Siddique, Secretary, Finance Division, remained Chairman of the Policy Board till December 21, 2010. Thereafter Dr. Waqar Masood Khan, Secretary, Finance Division, was appointed Chairman of the Policy Board. Mr. Muhammad Ali joined the Commission on December 24, 2010 as Chairman SECP. Out of the two members from the private sector, Mr. Anwar Saifullah Khan, resigned on December 27, 2010.

As of June 30, 2011, the Policy Board consisted of the following members:

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

Mr. Muhammad Ali
Chairman
Securities and Exchange
Commission of
Pakistan

Mr. Zafar Mahmood
Secretary
Commerce Division

Mr. Muhammad Masood Chishti
Secretary Law, Justice,
Human Rights
and Parliamentary
Affairs

Mr. Yaseen Anwar
Deputy Governor
State Bank of Pakistan

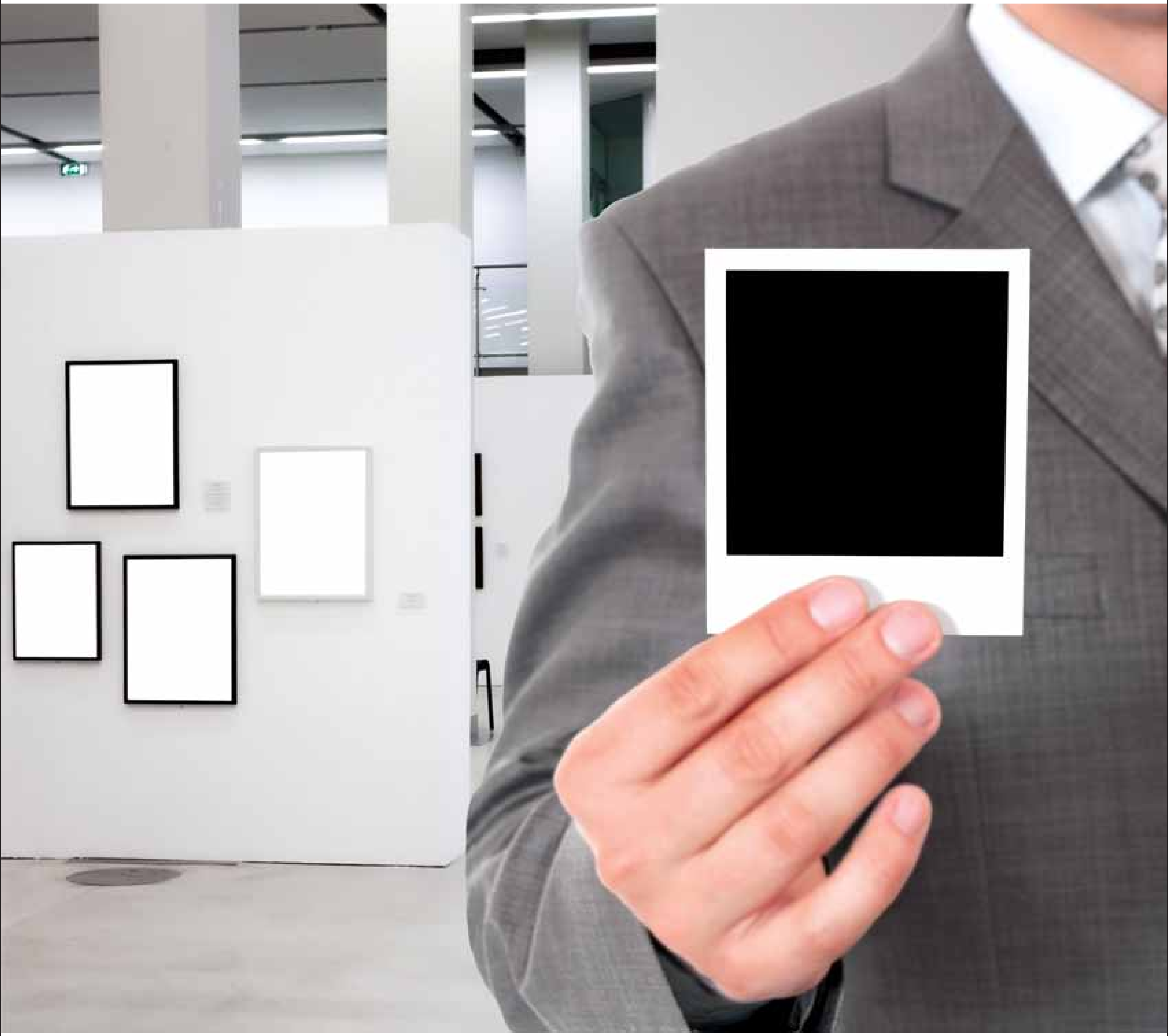
Mr. Faisal Bari
Head of Economics
Department
Lahore University of
Management Sciences

4.2 Policy Board Meetings

As per statutory requirements four meetings of the Policy Board were held during the calendar year 2010. However, three meetings pertained to the year under review. In the said meetings the Policy Board considered and approved the revised draft Securities and Exchange Commission of Pakistan Bill, 2011. Besides, the following major issues came under discussion of the Policy Board and appropriate decisions were taken thereof:

- Submission of Annual Report of the SECP along with its Annual Accounts for the financial year ending June 30, 2010, to the Federal Government
- Approval of budget of the SECP for the financial year 2010-2011
- Revision of pay scales of employees of the SECP
- Compensation review for the year 2010
- Approval of amendments to SECP's Service Manual
- Approval of amendments to HR Handbook

Photo Gallery



Muhammad Ali
Chairman, SECP

Tahir Mahmood
Commissioner, Company Law Division/Information Systems and Technology

Imtiaz Haider*
Commissioner, SMD

Mohammad Asif Arif*
Commissioner, Insurance Division

Abdul Rehman Qureshi
Advisor/Secretary, SECP

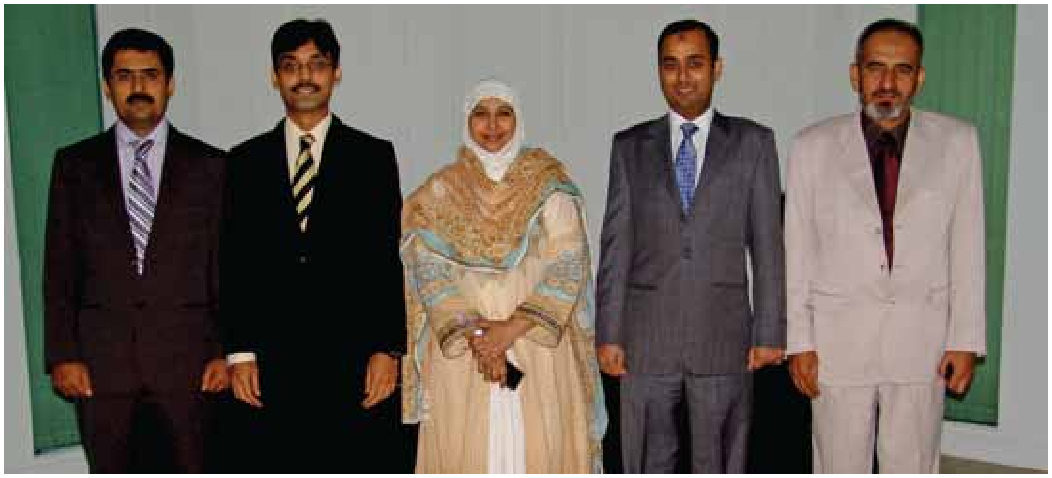
*Joined after June 30, 2011

Nazir Ahmad Shaheen, Executive Director and HOD, Corporatization and Compliance Department, (third from left) with his team

Ali Azeem, Director and HOD, Enforcement Department, (second from left) with his team

Musarat Jabeen, Director and HOD, Policy Regulation and Development Department, SMD, (fourth from left) with her team

Imran Inayat Butt, Director and HOD, Market Surveillance and Capital Issues Department, SMD, (third from left) with his team



Asif Jalal Bhatti, Executive Director and HOD, Policy Regulation and Development Department, SCD, (fourth from left) with his team

Sultan Mazhar Sher, Director and HOD, Legal Department, (third from left) with his team

Bushra Aslam, Director and HOD, Admin and HR Departments (fourth from left) with her admin team

Arshad Javed Minhas, Executive Director and HOD, Information Systems and Technology Department, (Third from left) with his team

Haider Waheed, Director and HOD, Internal Audit Department, (left) with his colleague

Javed K. Siddiqui, Executive Director and HOD, Finance Department, (third from left) with his team

Akif Saeed, Executive Director and HOD, Strategy Development and External Relations Department, (second from left) with his team

Shahid Nasim, Executive Director and HOD, Insurance (third from left) with his team.

Key Achievements

CORPORATE SECTOR

5.1. CORPORATIZATION AND COMPLIANCE DEPARTMENT*

The Corporatization and Compliance Department (CCD) is responsible for administration of the Companies Ordinance 1984 (Ordinance), and the rules and regulations made there under along with other relevant laws. Its primary functions include registration of companies, regulating their matters in light of the statutory requirements, and monitoring of corporate compliance through examination of periodical statutory returns. These functions are performed by the eight regional Company Registration Offices (CROs) of the SECP. The CCD supervises, coordinates, and monitors the workings of the CROs. Besides, the CCD performs number of other functions i.e., licencing of non-profit associations, developing legal framework, exercising delegated powers of the Commission and statutory powers of the Registrar of Companies, improving facilitation mechanism and processing appeals, review and revision applications.

5.1.1. eServices Project

eServices project was launched in September 2008, facilitating the functions of online availability of name, registration of companies, filing of statutory returns and submission of various applications. It is an easy, much faster, secure and efficient medium of interaction with the corporate sector. eServices has made the company registration process easier and almost 50% of the newly registered companies got themselves registered online during the current FY, showing the increasing adaptability by the general public.

To facilitate and encourage e-filers, the fees for online submission has been set lower as compared to offline submission. In future, the SECP aims at completely switching over to online environment and revamping its remaining processes to make them completely online.

A number of activities were undertaken to facilitate companies in the eServices regime. They include:

- In order to save time in locating any document filed by the companies, an interface has been provided for internal use that links both eServices and the archived documents.
- The facility for electronic inspection of records/documents filed by companies has been provided to the general public at the Company Registration Offices (CROs) in Karachi, Lahore and Islamabad. This facilitates inspections of both the documents filed online, as well as manually.
- In order to facilitate online users, the procedure of filing of Form 27 (list of persons consenting to act as directors), Form 28 (consent to act as director/chief executive) and Form 29 (the particulars of directors and officers, etc.) was simplified.
- To improve the CROs' operational efficiency and to reduce the turnaround time, the existing diary system of the Corporate Registration and Compliance System (CRCS) was revamped.
- An interface was provided to transfer pending documents from portal of one officer to another, which thus increased the overall efficiency.
- The Companies Regularization Scheme (CRS) was launched during the period wherein defaulting companies were allowed to file their overdue returns through physical submission to get their companies regularized. To bring the record in line with the eServices, an internal process was provided at the CROs enabling them to enter bulk forms received under the CRS into the system.
- Companies' Easy Exit Scheme (CEES) was launched during the period wherein companies filed applications physically for their dissolution. An internal module was provided at the CROs for processing of these applications received under the CEES under the eServices.
- To improve efficiency and bring consistency across the CROs, standard operating procedures (SOPs) for processing applications in the eServices were introduced.

*Name changed after June 30, 2011, previously Registration Department

5.1.2. Regulatory actions

a. Processing of application for grant of license to non-profit associations under Section 42

During the year, 53 licenses were issued to non-profit associations under Section 42, as compared to 22 licenses issued during the year ending June 30, 2010.

b. Amalgamations and mergers of companies

During the year, on the basis of the SECP's verbal and written comments, the High Courts approved amalgamation cases of the following companies:

1. Naseem Enterprises (Pvt.) Limited into Hussain Mills Limited
2. Liberty Energy (Pvt.) Limited into Liberty Mills Limited
3. Byco Chemicals Pakistan Limited & Byco Energy Pakistan Limited into Byco Oil Pakistan Limited
4. Stiefel laboratories Pakistan (Pvt.) Limited into Glaxo Smithkline Pakistan Limited
5. Ghotki Sugar Mills (Pvt.) Limited into JDW Sugar Mills Limited
6. National Tanneries of Pakistan (Pvt.) Limited into Elegant (Pvt.) Limited
7. Elite Textile Mills (Pvt.) Limited into Cresox (Pvt.) Limited

c. Capital Issue

(i) Issue of shares other than right

The approval was granted to two companies for issuance of shares other than right to existing shareholders in terms of proviso of sub-section (1) of Section 86 of the Ordinance. One of the companies issued 80.327 million shares of Rs10 each.

(ii) Issue of preference shares as other than right

The approval was granted to two companies in terms of proviso of sub-section (1) of Section 86 of the Ordinance and Rule 5 (1) of the Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000. One of the companies was allowed to issue 197.6 million (5% non-voting, cumulative, participatory and convertible) preference shares of Rs10 each.

(iii) Issue of shares with varied rights and privileges

Three companies were granted approval in terms of Rule 5 (1) of the Companies' Share Capital (Variation in Rights and Privileges) Rules, 2000. One of the three companies was allowed to issue 30 million cumulative, convertible, redeemable and non-participatory preference shares of Rs10 each.

d. Approvals and permissions

Under the Ordinance, 72,981 applications seeking regulatory approvals were received and after due consideration necessary approvals were granted by the SECP or the Registrar (Table 1).

5.1.3. Monitoring, compliance and enforcement actions

- The SECP processed 10 applications under Section 263 of the Ordinance for investigation of affairs of the companies that were allegedly not being managed in accordance with the law. Further, two orders were passed for appointment of inspectors to conduct the special audit of companies, under Section 234A of the Ordinance.
- Two orders were passed under Section 231 of the Ordinance for inspection of books of account and other books and papers of the companies. One of these inspections was concluded based on the findings and regulatory actions were taken by the CROs.
- The Registrar of Companies and the officers at the CROs adjudicated 1,279 cases of violation of various provisions of the Ordinance and punitive actions were taken against non-compliant companies.
- The SECP disposed of 284 cases of dissolution of companies. Of these, 42 companies were wound up voluntarily, two companies were compulsorily liquidated under court orders and 240 companies

were struck off from the register under Section 439 of the Ordinance. The dissolved companies had a cumulative paid-up capital of Rs1.05 billion.

- The SECP received 233 complaints from different stakeholders and 222 of them were disposed of during the year while 11 complaints were in process at the close of the year. (Table 2).
- The SECP received 37 appeals under the Ordinance, details are available in Table 3. Of these, 28 were disposed of while nine appeals were pending at the end of the period.

5.1.4. Developmental activities

5.1.4.1. Legal framework

a. Amendments to the Companies (Registration Offices) Regulations, 2003

The SECP vide its SRO No 599 (I)/2011 dated June 13, 2011, amended the Companies (Registration Offices) Regulations, 2003 and placed it on its website. The amendments have been made to ensure effective and smooth functioning of CROs, under the online submission environment and to include the functioning of CROs beyond their territorial jurisdictions. The timings for dealing/transaction of business with the public were increased and now are from 9 a.m. to 3 p.m., with a break from 1 to 2 p.m.

The companies have been facilitated in getting the duplicate certificates in case of loss, destruction, defacement or mutilation, etc., of the original certificate, previously issued by the Registrars. Moreover, a foreign company shall also be issued a certificate of registration of documents.

b. Deferral of the applicability of the Companies Cost Accounting Records (General Order), 2008

The SECP vide its SRO 371(I)/2011 dated May 9, 2011, deferred the applicability of the Companies Cost Accounting Records (General Order), 2008, to companies engaged in fertilizer, thermal energy, petroleum, refining, natural gas, and polyester fibre industries. This decision has been taken in view of the practical difficulties being faced by the relevant companies. Subsequent to the year end, this has now been withdrawn and would be replaced by sector-specific orders.

c. Amendment to the format of Statement in Lieu of Prospectus

The SECP vide SRO 289 (I)/2011, dated April 4, 2011 and SRO No. 677(I)/2011, dated July 8, 2011, amended the Statement in Lieu of Prospectus format contained in Parts II and III of the Second Schedule of the Ordinance required to be filed by unlisted public companies for obtaining Commencement of Business Certificate and by a private company converting into a public company respectively.

The main purpose of this revision is to make Statement in Lieu of Prospectus more compatible with the SECP's eServices regime and lucid for the companies. The previous format contained some cumbersome and difficult information. The amended format is much easier to be filled and best suited for online submission environment.

d. Amendments to the Sixth Schedule

The Sixth Schedule to the Ordinance, containing the table of fees paid to the SECP was amended to give relief to the stakeholders utilizing the eServices. Further, to encourage registration of the small and medium enterprises, the registration fee for physical submission of documents for incorporating a company, with nominal capital up to Rs10 million was reduced.

e. Enhancing disclosures under Group Companies Registration Regulations, 2008

The SECP promulgated the Group Companies Registration Regulations, 2008, on December 31, 2008, to provide a regulatory framework for the formation of group companies. In order to further enhance the public disclosure of intra-group shareholding and financial position of the group companies, SRO No 640(I)/2011was issued on June 22, 2011, mandating all the holding companies registered under the regulations to maintain their websites and place thereon the annual audited financial statements of their group companies along with their directors' report and the auditors' report.

5.1.4.2. Other developmental activities

a. Quality assurance

ISO 9001: 2008 certification for the CROs in Karachi, Lahore and Islamabad has been successfully achieved. The certification will assist the SECP in enhancing its image for service delivery, improving the quality of existing processes and services to the public and increasing public satisfaction through removal of deficiencies/gaps in service delivery.

b. Assistance to the Federal Government on restructuring program for designated state-owned enterprises (SOEs)

The Federal Government initiated a restructuring programme to undertake reforms in eight major SOEs. The Economic Reforms Unit (ERU) of the Ministry of Finance is spearheading the said program. At their request, the SECP has provided technical support to the ERU on the restructuring program, including that for the restructuring of BODs of designated SOEs, appointment of competent CEOs on their boards, and legal issues incidental and ancillary to the changes made in the boards of the SOEs.

c. Liaison with international organizations

Being the charter member of Corporate Registers Forum (CRF), an international organization for administrators of corporate and securities registers, the SECP regularly interacts with the registrars of other jurisdictions through the discussion forum and participates in global surveys on various matters.

The SECP also participated in the “World Bank Group Entrepreneurship Survey, 2010” and “Starting a Business Survey, 2011”. Updates on The SECP reforms in starting a business activity were provided.

5.1.5. Facilitation measures

a. Activation drive

To increase the compliance rate, the SECP launched an extensive campaign in February 2011 to activate defaulting companies and to strike off defunct companies. In the first phase, two separate lists were prepared, one of defaulting companies and the other of defunct companies. Apart from other non-compliances, these companies had not filed their annual returns for the last 5 years or more. Accordingly, the Registrars issued demand notices to these companies to take cognizance of their defaults, advising them to comply with the statutory provisions of the law.

In the second phase, action under Section 439 of the Ordinance was initiated against 3,263 defunct companies, while show-cause notices are being issued to 5,853 defaulting companies.

b. Facilitation extended in filing of annual returns and annual accounts

In order to facilitate companies to file their returns and to promote corporate compliance, the SECP facilitated companies on the due dates of filing of annual returns and annual accounts. The facilitation desks were set up at CROs and an officer was assigned to answer public queries on the schemes. The consultants and auditors were requested to persuade their clients companies to take advantage of the schemes. Extensive advertising awareness campaigns were run to create public awareness before last dates of filing of annual returns.

The Chambers of Commerce and Industry were engaged to extend facilitation to the corporate sector, raise awareness and disseminate information to members. The SECP help desks were established at the chambers to provide the facility of collection of annual returns.

The bank branches were also requested to facilitate filing. The CROs remained open late on the closing dates and last dates for filing were also extended to extend maximum facilitation for collection of these documents.

c. CRS and CEES campaigns

In line with the objective to extened public facilitation, the SECP launched two schemes, i.e., CRS and the CEES, wherein opportunity was provided to defaulting companies to either get regularized by filing their overdue returns under CRS or dissolve their companies under CEES. The schemes received an overwhelming response from the corporate sector and 3,747 companies’ benefited. Under CRS 1,855 companies regularized by filing 6,768 overdue returns, while under CEES 1,892 companies availed themselves of easy exit facility.

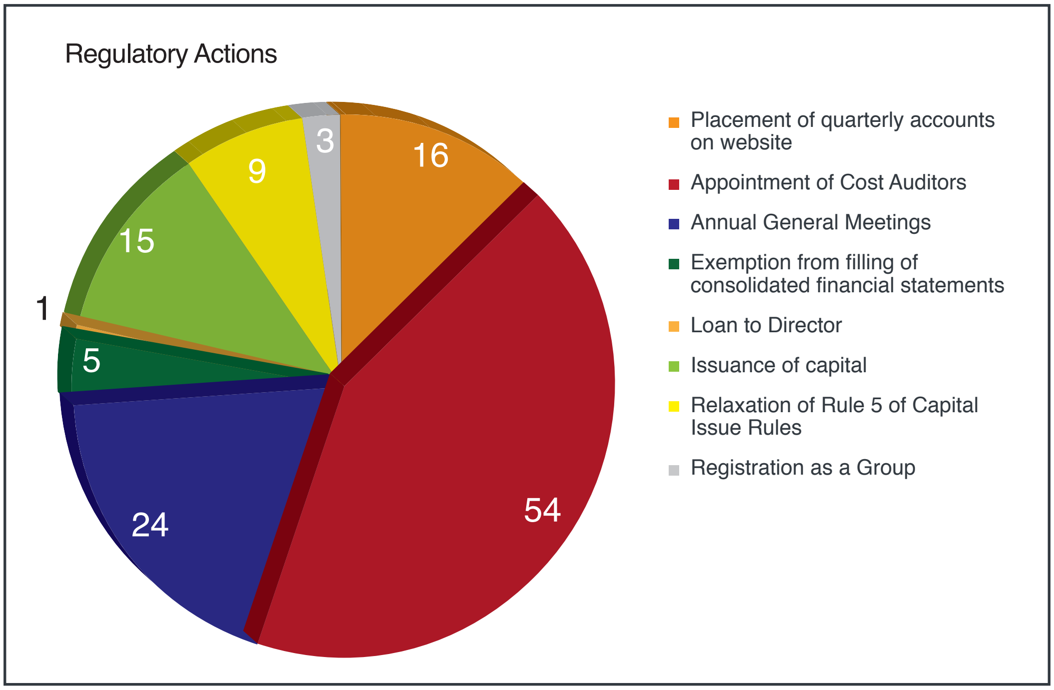
Name of CRO	Number of companies that benefited from CRS	Number of returns filed	Number of companies that benefited from CEES
Faisalabad	72	132	80
Islamabad	320	1485	306
Karachi	513	1757	718
Lahore	632	2363	627
Multan	95	230	59
Peshawar	167	644	67
Quetta	47	141	33
Sukkur	9	16	2
	1,855	**6,768**	**1,892**

d. Other measures

- Standardized Memorandum of Association for 40 additional sectors have been developed and placed on the SECP website. These include sectors relating to services, trading, energy, agriculture, investment and capital markets etc.
- Jacket folder containing post incorporation statutory requirements for presentation of Certificate of Incorporation to the companies, has been developed.
- A comprehensive schedule of filing of statutory returns has been placed on the SECP website.
- The promoters guide was translated into the German language to facilitate foreign companies and investors.
- Some of the existing guides were revised to incorporate new developments. These include: Promoters' Guide (English), Availability of Company Name Guide, Change of Company Name Guide, Mortgages and Charges Guide, Directors' & Secretaries' Guide, Foreign Companies' Guide, Conversion of Status Guide and Appointment of Statutory Auditors Guide.
- A guide explaining the procedure for filing of statutory returns, submission process, late filing and related fees, and description of regular statutory returns was developed and placed on the SECP website. In addition, Change in Object Clause of Memorandum Guide was prepared to provide basic information about the alteration to the object clause of the Memorandum of Association of a company and to file a petition to the SECP for confirmation of the alteration.
- Regular meetings with corporate consultants/intermediaries were held at the CROs to obtain their feedback for improvement in various areas pertaining to operational working of CROs. Different issues regarding online and offline filing were discussed and some useful suggestions were received. The SECP's efforts and initiatives aimed at extending facilitation to the corporate sector were much appreciated.
- Awareness seminars and workshops on benefits of corporatization, eServices, and corporate compliance were conducted in a number of cities. These events were very well attended and an overwhelming response was received.
- An online survey titled 'Survey on Services provided by the CROs' was developed and placed on the SECP website. It is aimed at obtaining feedback and suggestions from companies, consultants and other stakeholders.
- The SECP in collaboration with the State Bank of Pakistan (SBP) also issued public warnings against illegal/fraudulent/unauthorized business activities in case of specific companies.

5.2. ENFORCEMENT DEPARTMENT

The Enforcement Department is responsible for the regulation and enforcement of companies listed on stock exchanges, public unlisted and private companies having paid-up capital of Rs7.5 million and above and companies formed under Section 42 of the Ordinance (except insurance companies, non-banking finance companies and modarabas) with relevant laws and applicable accounting standards through review of accounts, investigation, and prosecution. In case of non-compliances, necessary actions are taken against erring companies, their directors, management and auditors, as appropriate.



5.2.1. Regulatory actions

5.2.1.1. Issue of capital

Companies can issue different types of shares, on a par, at a premium/discount and otherwise than right shares or by conversion of loans/advances/credits, to raise their capital subject to the requirements of the Ordinance including the Companies (Issue of Capital) Rules, 1996 (Rules), and prior approval of the SECP. The applications for issue of different types of shares were dealt in the following ways:

a. Raising capital by issuance of shares by way of other than right

Twenty applications for issue of shares by way of other than right were processed. Fifteen companies were permitted to raise capital hence resulting in fresh injection of funds amounting to Rs24.459 billion (including 7 million shares at $1 per share to a US-based company). Two applications were not approved on account of non-compliance with relevant legal requirements while further information was sought from companies in three cases.

b. Issuance of preference shares

One company submitted an application, seeking approval for issuance of 112.771 million preference shares amounting to Rs1.127 billion against conversion of loan from sponsors and certain shareholders. The case is being processed.

c. Relaxation of Rule 5 of the Rules

Keeping in view the circumstances and facts enumerated by applicant companies, the SECP gave relaxation from the requirements of the Rules to seven companies in order to enable them to proceed with their proposed right offer.

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

Two companies requested extension in public announcement for offer after acquisition of companies, which were subsequently granted.

5.2.1.3. Other matters

- Extension in time to hold annual general meetings was granted to 19 listed companies. Five companies were allowed to hold their AGMs in towns away from their registered offices.
- Requests of five listed companies were approved, granting them exemption from the requirements of attaching consolidated financial statements with their stand-alone financial statements.
- Currently, 255 listed companies have obtained approval from the SECP to place their quarterly accounts on their websites instead of transmitting these by post in order to ensure that material information is available to shareholders enabling them to make informed decisions. During the year, nine more companies were permitted to place their quarterly accounts on their websites and six companies were allowed to change the addresses of their respective websites.
- In respect of vegetable ghee and cooking oil, sugar and cement industries, the appointment of 54 cost auditors was approved under the Companies (Audit of Cost Accounts) Rules, 1998.
- The SECP issued certificate of registration as a group to three companies and one of the groups was designated for relief under Group Companies Registration Regulations, 2008.

5.2.2. Monitoring, compliance and enforcement actions

The SECP ensures efficient monitoring of companies with respect to compliance and conformity with relevant laws, regulations, the International Financial Reporting Standards (IFRS), and Accounting and Financial Reporting Standards for Medium Sized Enterprises (MSEs) as well as Small Sized Enterprises (SSEs) issued by the Institute of Chartered Accountants of Pakistan (ICAP). The review of financial statements paves the way for transparency and accountability. Hence, effective enforcement through identification and adjudication of various offenses committed by the companies, their directors, officers and auditors is an integral part of the regulatory process. This ultimately helps build as well as maintain investors' trust and confidence in the system.

Breakup of actions taken during 2010-11: Statute-wise

Relevant laws	SCNs*	Orders/warnings/ directions	Penalty orders
Companies Ordinance, 1984	392	109	200
Takeover Ordinance and Regulations	8		4
Companies (Audit of Cost Accounts) Rules, 1998	1	1	1
Companies (Issue of Capital) Rules, 1996	4		1
Total	405	110	206

*Show-cause notices

5.2.2.1. Inspections

The SECP is authorized by statute to inspect the books of accounts and books and papers of companies. The inspections of books of accounts of four companies were initiated during the period. A proceeding initiated owing to the shutting down of operational activities, disposal of plant and machinery, adverse financial position and absence of internal audit systems, was concluded during the period and penalty was imposed on the chief executive of the company. Three inspection proceedings initiated during the year are being finalized. Furthermore, one of the inspection proceedings initiated against a non-profit organization in the previous period on account of misappropriation of donor's fund, was concluded during the year and penalty imposed thereon.

5.2.2.2. Investigations

The law empowers the SECP to initiate investigations by appointing inspectors to look into the affairs of the companies, if it so deems appropriate. Three investigation proceedings were initiated and are still under process. Details of these investigations are as under:

I. Upon receipt of application from three shareholders of a company an investigation was initiated vis-à-vis its financial statements, which showed losses for three consecutive years.

II. Investigation was launched against a company on the basis of inspection report, indicating inappropriate calculation of swap ratio and suspicious outstanding intra-group balances.

III. An investigation was initiated against a company that had negative equity and was suffering losses while its current liabilities substantially exceeded its current assets as per the financial statements for the year ending June 30, 2009.

An investigation proceeding initiated previously against a company with a specific focus on suspicions regarding relinquishment of Government of Pakistan control and resultant takeover by private investors, subsequent unusual movement in its share price and the issues affecting the fairness of accounts is still being finalized.

The SECP also concluded an investigation, initiated in the previous period, on account of misstatements in the financial statements and contravention of certain provisions of the law by imposing a penalty of Rs1.5 million on the directors of the company.

5.2.2.3. Actions against auditors

The auditors have a significant responsibility towards the shareholders of companies. It is essential that auditors discharge their responsibilities with due care, integrity and professional skepticism to give an independent opinion on financial statements. During the year, 14 cases of negligence by auditors were concluded with penalties and warnings where they had failed to act in conformity with the statutory requirements and the relevant audit reports failed to disclose material facts about the affairs of companies.

5.2.2.4. Appointment of independent share registrar

For listed companies, appointment of an independent share registrar is mandatory for facilitation to shareholders. Taking cohesive measures against the violation of the aforesaid mandatory requirement, proceedings were finalized against officers of 15 defaulting companies during the year. The chief executive and directors of two companies were penalized and warnings were issued to 13 companies to follow the law in letter and spirit.

5.2.2.5. Inter-corporate financing

While inter-corporate financing constitutes a major source of funding for productive investments and capital formation, management and sponsors of companies sometimes may abuse this avenue for transfer of funds to their own benefit. In order to curb this misuse of funds, the Ordinance has placed certain restrictions on investments in associated companies.

Necessary steps were taken to discourage misuse of company funds through unauthorized investments in associated undertakings/companies by allowing credit limit which is not in nature of normal trade credit and by providing free of cost advances to associated companies. Sixty-five cases were concluded wherein 52 companies were penalized and warnings were issued to 13 companies, where investments were made in associated companies in violation of restrictions imposed by the Ordinance.

5.2.2.6. Disclosure of interest by director and participation or voting in proceedings of directors

Directors of companies, under the Ordinance, are required to disclose their interest in any contract or agreement at a meeting of the directors in which it is discussed. Certain infringements/breaches were observed and proceedings against directors of seven companies were finalized. Directors of five companies were penalized while warnings were issued to two companies.

5.2.2.7. Irregularities in utilization of amount of security deposits

The SECP ensures that companies do not utilize any money received as security or deposit, except in accordance with a written contract; and all money so received shall be kept or deposited in a special account with a scheduled bank as required under the Ordinance. The proceedings against 14 companies were initiated, eight companies were penalized for non-compliance, five companies were warned to ensure future compliance and proceedings in the matter of one company are being finalized.

5.2.2.8. Disclosure to members of director's interest in contract appointing the chief executive

The terms and conditions of appointment of the chief executive of a company is required to be determined by the directors or the company in a general meeting in accordance with the provisions of the company's articles and any variation therein is also required to be circulated to the shareholders of the company under the Ordinance. Nine companies were found to be in violation and the directors of three companies were penalized while the directors of five companies were warned to ensure future compliance. The proceedings against one company are being finalized.

5.2.2.9. Irregularities in provident fund

Action against directors of 33 companies and trustees was initiated for mis-utilization of provident fund contributions, which were not being deposited/invested by the companies in a timely fashion as prescribed under the Ordinance. In this regard, directors of 16 companies were penalized, warnings were issued to 11 companies and six are being finalized. Moreover, these companies were directed to repay the contributions and loans due to the respective funds along with accrued mark-up, wherever applicable.

5.2.2.10. Non-preparation and submission of consolidated financial statements

Actions were initiated against directors and officers of 15 companies, who failed to prepare and attach consolidated financial statements with their standalone annual audited financial statements as required under the Ordinance. The directors of six companies were fined while the directors of nine companies were reprimanded to be careful in future.

5.2.2.11. Surplus arising out of revaluation of fixed assets

The proceedings against directors of eight companies were concluded, for failure to transfer an amount equal to incremental depreciation from surplus on revaluation of fixed assets account to un-appropriated profit/accumulated loss, through statement of changes in equity, to record realization of surplus to the extent of the incremental depreciation charge for the period.

5.2.2.12. Authentication of balance sheet

As per the requirements of the Ordinance the balance sheet and profit and loss account or income and expenditure account have to be approved by the directors and signed by the chief executive and at least one director. In this connection, proceedings were initiated against directors of ten companies who failed to authenticate the financial statements in the manner prescribed under the Ordinance. During the year, three cases have been concluded while seven cases are being finalized.

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

The proceedings were initiated against 45 companies for improper issuance, circulation or publication of balance sheet, i.e., for not annexing the profit and loss account or income and expenditure account, any reports, notes or statements referred therein, the auditor's report and director's report, as required under the Ordinance. Penalties were imposed in 21 cases, four companies were directed to ensure strict compliance in future with the laws and regulations while 20 cases are being finalized.

5.2.2.14. Non-filing of annual audited accounts by companies other than listed companies

The SECP is authorized to take appropriate measures against non-filing of accounts by the companies other than listed companies. The proceedings against 15 other than listed companies were initiated for not filing of their annual audited financial statements with the Registrar of Companies. Three cases have been concluded and penalties have been imposed on the directors of these companies while 12 cases are being finalized.

5.2.2.15. Non-circulation of quarterly accounts

The law requires every listed company to prepare and circulate its quarterly accounts at the end of each quarter, whether audited or otherwise. The proceedings were initiated against 33 companies for non-circulation of quarterly accounts; 11 of them were concluded by penalizing the directors. The SECP's efforts with regard to circulation of quarterly accounts resulted in more than 79% compliance by listed companies.

5.2.2.16. Submission of additional statements of accounts and reports on directive of the SECP

The SECP may issue circulars or publish notifications containing the order to submit any periodical statements of accounts, information or other reports in the prescribed manner and time to the members, the registrar, any authority, a stock exchange and any other person. Proceedings against five companies were concluded for non-compliance with the SECP's directives on account of late/non-submission of cost audit reports and failure to transmit notice of AGM to the SECP on the day of issuance of notice, through fax. The directors and officers of three companies were penalized while two companies and their directors were warned to ensure compliance.

5.2.2.17. Non-holding of AGM and the SECP's power to hold overdue AGM

AGMs provide a forum for the shareholders to participate in the affairs of their company and to consider and approve significant matters relating to the management and performance of companies, including approval of annual accounts, declaration of dividend, appointment of auditors, and election of directors. The SECP's efforts with regard to conducting general meetings resulted in more than 81.93% compliance by listed companies. The SECP also has powers to direct the companies to hold the overdue general meetings. The following actions were taken for late/non-holding of AGMs of listed companies:

(i) Proceedings against 16 listed companies were initiated on account of late and non-holding of AGM. The directors of nine companies were penalized while the directors of one company were warned. Six proceedings are being finalized.

(ii) Proceedings were initiated against directors of six companies for failing to comply with the SECP's direction under the Ordinance to hold overdue AGM, out of these five companies were penalized while a warning was issued to one company.

5.2.2.18. Review of notices of general meetings

During the review of notices of general meetings, 63 instances of non-compliance were found where vital information was either deficient or missing in notices of AGMs/extraordinary general meetings (EOGMs). Such companies were directed to circulate relevant information to the shareholders by way of an addendum. Furthermore, proceedings against directors of three companies were initiated for not disclosing material facts along with the notice of AGM/EOGM.

5.2.2.19. Non-holding of election of directors within the prescribed period

The directors of a company are elected by the members of the company in a general meeting following the procedure laid down in the Ordinance. The compliance with the provisions of the law was scrutinized and proceedings were initiated against directors of three companies for non-holding of election of directors and running the company with incomplete board of directors. The chief executive of a company was penalized while proceedings against two companies are being finalized.

5.2.2.20. Meetings of board of directors and its quorum

The Ordinance duly prescribes the procedure for the directors to hold meetings for purpose of running the affairs of the business. While scrutinizing the records of companies, certain violations/contraventions were observed and proceedings against directors of four companies were initiated. The directors of two companies were penalized while proceedings against two companies are being finalized.

5.2.2.21. Misuse of powers by directors

The directors of a company are agents, owing fiduciary duties, and are real quasi-trustees through whom a company acts. In order to encourage good corporate practices, proceedings against directors of 16 companies were initiated. The violations included selling, leasing or otherwise disposing of undertakings or a sizable part of the assets of a company without approval of the shareholders/BOD, advances to associates and provision of advances without approval of the BOD. The directors of nine companies were penalized, warnings were issued in the matter of three companies while four proceedings are being finalized.

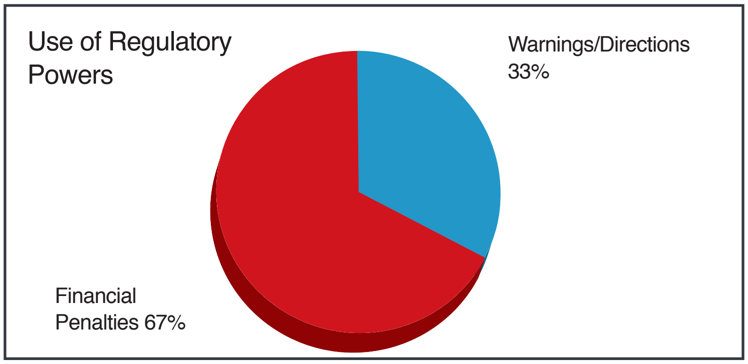
5.2.2.22. Direction to undo non-compliance of law

In order to improve compliance with the provisions of the Ordinance or to undo irregularities, the SECP may pass an order directing the company or any officer of the company to undo or otherwise make amendment as may be specified therein. Four companies were directed to undo non-compliance with provisions of the Ordinance and 32 companies were directed to comply with statutory reporting standards in addition to provisions of the Ordinance. A proceeding in the matter of a company was closed with a warning.

The SECP has also been empowered to take punitive action against a company or any person who contravenes or fails to comply with a directive given by it. The proceedings against two companies that failed to comply with the SECP's directive/order are being finalized.

5.2.2.23. Making false/incorrect statements in documents

The SECP ensures that the companies disclose complete and relevant information to their shareholders and stakeholders. Directors of 16 companies were penalized while warnings were issued to the directors of five companies for misstatements/omission of material information in the financial statements.



5.2.2.24. Ultra vires business

Any business activity being pursued by a company, which is not provided for in the memorandum of association is an ultra vires business and the directors or any officer of a company are not allowed to carry out such a business. The compliance with the provisions of law was strictly observed and the chief executive of a company was penalized for unauthorized utilization of company's funds.

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

To provide a fair and equal treatment to all investors as well as a transparent and efficient system for substantial acquisition of voting shares and takeovers of listed companies, instant actions are taken against the violations of provisions of the Listed Companies (Substantial Acquisition of Voting Shares and Takeovers) Ordinance, 2002. Certain instances of non-compliance with the provisions of the takeover Ordinance were identified. Proceedings in four cases were concluded and penalty imposed while six cases are in process.

5.2.2.26. Late submission of applications for appointment of cost auditors (Rule 5 of Companies (Audit of Cost Accounts) Rules, 1998)

As per the Ordinance, the SECP's permission is necessary for those companies that are required to appoint a cost auditor. Currently, companies engaged in the business of vegetable ghee and cooking oil, sugar and cement industries are required to prepare their cost accounts. Proceedings against the directors of three listed companies were concluded for late submission of application for appointment of cost auditor.

5.2.2.27. Communication of BOD's decision to issue bonus/right shares

Rules 5 and 6 of the Companies (Issue of Capital) Rules, 1996, provide that the decision of a listed company to issue right shares and bonus shares shall be communicated to the SECP and the respective stock exchange on the day of the decision. Proceedings against four companies were initiated for violating the Rules. One case was concluded and penalty imposed on the chief executive.

5.2.2.28. Winding up of companies

Winding up entails the change of management and administration to be carried on through liquidator(s) till the final dissolution of the company. The Ordinance envisages the circumstances, under which a company may be wound up. Proceedings for winding up were initiated against six companies. A winding-up order in the matter of a previously initiated proceeding has been concluded while all cases initiated during the period are being finalized.

5.2.2.29. Investors' grievances

Shareholders and stakeholders are encouraged to voice their concerns and complaints in case of possible violation or contravention of law by companies. During the year, 398 complaints were resolved, mainly related to non-receipt of dividend warrants, non-encashment of dividend warrants, delay/non-transfer of shares, issue of duplicate shares, non-receipt of annual/interim accounts and wrongful deduction of zakat, etc. In the matter of a private limited company, due to active arbitration of the SECP an agreement between both the parties to the dispute was arrived at, resulting in withdrawal of 23 civil and criminal cases, release of property and payment of compensation.

Complaints Status 2010-11	
In progress at start of the period	30
Received during the period	**398**
In progress at the end of the period	30
Total complaints resolved during the period	**398**

5.2.2.30. Mergers/demergers

In the case of merger, demerger, amalgamation or any reconstruction (compromise and arrangements) of a company, the court takes into consideration the representation of the Registrar, if any, before passing any order. Matters of the demerger of two companies were dealt with during the period and comments were prepared and filed with the court. In addition to this, the merger of two listed companies is in process and a change in the swap ratio, for the benefit of the members, has been proposed. Comments on various merger petitions were furnished to the respective courts.

5.2.3. Developmental activities

5.2.3.1. The SECP-ICAP coordination committee in respect of QCR rating process and reference of malpractices by statutory auditors to ICAP

In addition to two of its nominees, the SECP also had representation on the Quality Assurance Board (QAB) of the Institute of Chartered Accountants of Pakistan (ICAP) through nomination of one of its directors as a member. The QAB aims at continuous monitoring of compliance by audit firms with appropriate levels of professional standards in the performance of the audit function and provide guidance to practitioners to improve their standards. Through active consultation at the level of the SECP-ICAP coordination committee and by representation as a member on QAB we expect an active role in introducing best practices for QCR rating process.

5.2.3.2. Exemption from IAS 21 and IAS 39 to IPPs

An exemption was granted to IPPs from applicability of International Accounting Standards (IAS 21-The Effects of Changes in Foreign Exchange Rates and IAS 39-Financial Instruments: Recognition and measurement) with reference to accounting treatment of exchange gain/losses of foreign currency loans and the notification was issued on February 3, 2011. Moreover, the ICAP has been requested to prepare a unified accounting framework for exchange gain/losses of foreign currency loans.

5.2.3.3. Exemption from IFRS-2 to Benazir Employee Stock Option Scheme

The SECP, in consultation with the ICAP, issued a notification on June 7, 2011, to grant exemption from IFRS-2 Share Based Payments to all such entities, which are otherwise required to comply with it while accounting for the “Benazir Employee Stock Option Scheme”. However, such entities are required to disclose such departures in their financial statements.

SECURITIES MARKET

Market overview

a. Stock market

The KSE – 100 Index manifested significant strength in terms of growth and sustainability in the FY2011 after two relatively turbulent years. The KSE – 100 index exhibited the characteristics of a dynamic stock market and performed well during the first half of FY2011 and sustained its levels during the next half. The improved market indicators were consequent to encouraging factors like financial assistance from international donors, significant foreign investment in blue chip stocks, anticipation of a leverage product, etc.

The benchmark index demonstrated accelerating trend since the start of the financial year, starting from a level of 9,730.90 points, crossed level of 12,000 points in January 2011 and touched highest of 12,681 on January 17, 2011 registering a rise of 30.32%.

During the second half of the FY2011, the index struggled to maintain its pace but dropped immediately after third quarter and managed to close at 12,496 points by the end of FY2011. Factors like massive foreign selling in the stocks during the second half of FY2011, local and international political turmoil, increased discount rate by the central bank to curb the inflationary pressures affected investors' confidence. This ultimately resulted in limited participation by the local investor and dearth of liquidity in the capital market.

The cumulative index growth in the FY2011 was momentous, but could not be well aligned with volumes. The daily average volume sustained around 99 million shares on daily average basis, which is approximately 66.47% less as compared to the previous year. The net inflow of foreign investment by the end of the FY2011 stood at US$280.181 million, which was predominantly built up in the first half of the FY2011.

b. Pakistan Mercantile Exchange

The trading volumes at the Pakistan Mercantile Exchange (PMEX) showed substantial growth during the review period. The total traded value of contracts climbed to Rs490.5 billion in FY 2010-11 as compared to Rs63.61 billion in FY 2009-10 depicting a growth of 671%, whereas the number of contracts traded rose to 1,475,582 in FY 2010-11 from 317,024 traded in the FY 2009-10 depicting a growth of 365%. Further, during the period under review, 48 new brokerage licenses were granted, under the Commodity Exchange and Futures Contracts Rules, 2005.

5.3. POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

The Policy, Regulation and Development Department (PRDD) is responsible for the development and review of policies and regulations governing key capital market institutions, including stock and commodity exchanges, central depository company, national clearing company and other market participants.

5.3.1. Developmental activities

5.3.1.1. Laws and regulations

The SECP approved various amendments to the regulatory framework of the capital market in consultation with the relevant stakeholders. These amendments were aimed at improving risk management, facilitating new products, increasing transparency and ensuring greater investor protection, most important of which are listed below:

5.3.1.1.1. Amendments to the regulatory framework of the stock exchanges

a. Regulations governing risk management

- Considering the critical nature and seriousness of force majeure events, amendments were approved to make it mandatory to have approval of at least three-fourth majority of the directors present at a meeting of the Board of Directors of the stock exchanges for invoking the force majeure clause;
- In line with international practices and in order to minimize the threats of artificial movements in the closing prices of securities, the concept of minimum threshold was introduced in respect of determination of closing prices of securities at the end of the business day.

b. Listing Regulations

- Amendments were approved to the listing regulations for incorporation of the earlier approved the SECP policy for dealing with companies in violation of the listing regulations for strengthened enforcement of the same by the stock exchanges;
- To ensure that only serious applicants are allowed to apply for voluntary delisting, for protection of the minority shareholders' interest and to curb manipulation in the price of the security of a company, amendments were approved for non-refund of application fee submitted for voluntary delisting in case the company fails to comply with requirements of voluntary delisting.

c. General Regulations

- In order to assist implementation of a robust anti-money laundering regime in the Pakistani capital market, amendments were approved to the Standardized Account Opening Form to make obligatory for members to receive payments of clients above Rs25,000 through crossed banking instruments only, barring exemptions;
- Amendments were approved to these regulations for simplification of regulatory requirements for imposition of fine, suspension and expulsion of members for certain violations of the regulatory framework.

d. Regulations for Bonds Automated Trading System (BATS)

For phased migration of trading of the debt securities from the current over-the-counter market to a purely exchange based automated system in light of the recommendations of the special-purpose committee formed for review of the said system, amendments were approved for putting into effect the revamped model of the BATS. These amendments were primarily targeted at facilitating the price discovery process and price negotiation between market participants in the bond market in line with the international best practices and local market conditions.

e. Regulations governing Stock Index Futures Contract

Amendments were approved for introduction of trading in oil and gas and banking sectors' indices in the Stock Index Futures Contracts Market, in line with international practices to enhance liquidity and provide investment alternatives to the market.

f. Karachi Automated Trading System (KATS) Regulations of KSE

To ensure business continuity at the stock exchanges, amendments were approved, allowing use of the Members' Disaster Recovery (DR) Terminals installed at their registered offices/branch offices to act as normal workstations which are to be connected with the KATS during normal operation and with the DR site of the exchange in case of a disaster.

5.3.1.1.2. Amendments to the regulatory framework of the National Clearing Company of Pakistan Limited (NCCPL)

- Amendments were approved to trade-for-trade settlement, risk management and default handling by introduction of counter party risk management mechanism for trades of the debt market. These amendments strengthen the risk management and default management mechanisms in place at the NCCPL for the debt market trades;
- Amendments were approved to the NCCPL Regulations for provision of the Institutional Delivery System (IDS) facility on cash-settled futures (CSF) contracts for direct payment of margins and mark to market losses to the NCCPL by the non-broker clearing members for their affirmed CSF transactions, ultimately enhancing the brokers' capacity to do business.

In addition, amendments were approved to the NCCPL Regulations for implementation of the automation of securities settlement project and for the introduction of the new leverage mechanisms of margin financing, margin trading, securities lending and borrowing.

5.3.1.1.3. Amendments to the regulatory framework of the Central Depository Company of Pakistan Limited (CDC)

Amendments were approved to the CDC Regulations for the following:

- In case of revocation of Central Depository System (CDS) eligibility of any security, such securities will remain frozen in the respective accounts till the time physical share certificates along with transfer deeds are delivered by the concerned issuer. The said amendments address the issue of securities which are deleted from CDS and yet not provided in physical form to the accountholders;
- Handling of specie dividend in the CDS;
- Transaction and custody fee at the CDC were reduced to provide relief to the investors.

5.3.1.1.4. Amendments to the regulatory framework of the Pakistan Mercantile Exchange Limited

Amendments were approved to the NCEL General Regulations for requiring a net worth of Rs20 million from universal members and Rs10 million from specific members at the PMEX and for ensuring that charges paid by the brokers are directly allocated towards the Investor Protection Fund rather than the PMEX allocating a percentage of its clearing charges towards the fund.

5.3.1.2. New products/systems

5.3.1.2.1. Margin financing, margin trading and securities lending and borrowing and pledging mechanisms

Liquidity in trading is an essential requirement of any vibrant stock market. Realizing the dearth of liquidity and non-availability of any financing mechanism in the Pakistani capital market, the Securities (Leveraged Markets and Pledging) Rules, 2011, were promulgated in line with international best practices after exhaustive consultation with all relevant stakeholders. These rules provide a broad regulatory framework for margin financing, margin trading, securities lending and borrowing and pledging of clients' securities. The rules also introduce effective disclosure requirements with appropriate risk containment measures to ensure greater transparency and provide avenues for meeting the financing needs of capital market while providing retail investors with an easy access to financing against shares. Further, the brokers are required to conduct credit risk assessment of their clients and assign credit limits accordingly.

5.3.1.2.2. Debt capital market development

A committee of stakeholders was constituted to suggest sustainable solutions for encouraging trading activity on the earlier-introduced automated system for trading of bonds at the stock exchanges. Based on the recommendations of the committee, the system was revamped along the lines of the Bloomberg-based E-Bond with various system enhancements aimed at facilitating price discovery process of debt instruments and price negotiation between the market participants in line with international standards to facilitate market participants.

5.3.1.2.3. Development of the commodity market

Commodity markets constitute an important part of the capital market and their contribution towards the development of capital market and the economies is immense. Commodity futures markets help reduce price volatility and risks associated with a commodity, aid in price determination and help bring about a balance in production and consumption of commodities in the economy. Accordingly, realizing the significance of the commodity market, the product portfolio of PMEX was renewed to fulfill the hedging requirements of various market segments, to broaden the investor base and to bring PMEX in comparison with other commodities exchanges internationally. Cotton and sugar futures contracts along with silver and gold contracts of varying sizes were approved for listing at PMEX, after determining market demand and stakeholder consultation.

5.3.1.2.4. Introduction of market makers

The concept of market making was introduced for the securities being traded on the stock exchanges with the intention to bring more liquidity to the securities market and maintain orderly market by reducing the excess volatility associated with relatively illiquid securities. Initially, market makers have been allowed in the debt and derivative markets only. For the said purpose, regulations governing market makers were approved for the Karachi Stock Exchange (KSE) and the Islamabad Stock Exchange (ISE).

5.3.1.2.5. Introduction of tradable sectoral indices

In order to promote trading in the derivative segment, improve liquidity and provide more benchmarks for derivative trading, trading in sector specific indices based on oil and gas and banking sectors in addition to KSE 30 Index was introduced. These tradable indices provide an opportunity to the investors to hedge price volatility risk associated with the underlying sectors in their investment portfolios.

5.3.1.3. Other developmental activities

5.3.1.3.1. 'Automation of Securities Settlement' Project

To address the concerns over the level of authentication and control over movement of securities in the CDS, the 'Automation of Securities Settlement' project was launched in collaboration with the CDC, NCCPL and the stock exchanges. The said project employs straight-through processing solution which has changed the settlement structure by allowing the settlement of market trades to take place directly from the respective accounts of investors without any manual intervention.

5.3.1.3.2. Strategy for companies in violation/non-compliance of the listing regulations of the stock exchanges

In line with the apex regulator's efforts for safeguarding the investors' interests and providing exit to investors, a comprehensive policy was formulated in consultation with the stock exchanges for dealing with companies in violation of the Listing Regulations of the stock exchanges, based on the nature of default(s). Such companies not only pose serious threat to the development of a robust capital market but also inhibit investors' confidence due to lack of transparency as these attract uninformed investors depriving them return on their investment and in some cases even the principal amount.

5.3.1.3.3. Development and strengthening of UIN database at NCCPL to detect and prevent market abuse

To mitigate chances of market abuse, the stock exchanges and NCCPL were advised to introduce a system for prohibiting trading by employees of brokerage houses through other brokerage houses. Proceeding in a phased manner, Phase I of the said system was implemented wherein all the employees/agents of all brokerage houses were duly registered in the UIN database at the NCCPL.

5.4. MARKET SURVEILLANCE AND CAPITAL ISSUE DEPARTMENT

The Market Surveillance and Capital Issue Department is responsible for:

- Monitoring and surveillance of the trading activities at the three stock exchanges
- Ensuring the compliance of relevant rules and regulations by the stock exchanges and other market intermediaries
- Conduct inspection and enquiries into the affairs of market participants and take enforcement action where required
- Registration of brokers and agents
- Handling of investor complaints
- Approval of prospectuses for public issue/offer of securities
- Monitor the trading activities of specified officers and more than ten percent shareholders of all listed companies

5.4.1. Regulatory actions

5.4.1.1. Issue of share capital

During the period under review, the shares of two companies were offered to the public as compared to eight companies last year. New capital of Rs8.071 billion was listed in FY2011 as compared to Rs39.753 billion in FY2010. Both issues were offered for sale of shares through which 64.714 million shares were offered to the public. Out of these one was oversubscribed while the other was undersubscribed. Similarly, during the same period, two companies issued TFCs to the public. TFCs of Rs4 billion were listed during FY2011 as compared to Rs8 billion in FY2010.

5.4.1.2. Listing of securities on over-the-counter (OTC) market

During FY 2011, one Commercial Paper (CP) issue of Rs1 billion and two privately placed term finance certificates (PPTFCs) of Rs2 billion and Rs4 billion were listed on OTC market. The listing of the CP was the first ever listing on OTC.

5.4.1.3. Employees Stock Option Scheme

Employees Stock Options are used not only to reward employees but also as retention tools, building up long-term loyalty of employees to their workplace. The stock option schemes are approved by the SECP under the Public Companies (Employees Stock Option Scheme) Rules, 2001. During FY2011, the SECP approved two Employees Stock Option Schemes of NIB Bank Limited and UBL Fund Managers Limited.

5.4.1.4. Issue of securities outside Pakistan

Pakistani companies can also raise funds from the international markets through issuing international bonds, Sukuks, GDRs and other securities in the international market. The SECP's approval is required by such companies under Section 62A of the Ordinance read with Section 20(5) (a) of the SECP Act 1997.

During FY2011, NOC/approval was granted to Fatima Fertilizers Co. Ltd for issue of American Depository Receipts (ADRs) outside Pakistan under the Sponsored Level-I ADR program by the Bank of New York Mellon, the Depository.

5.4.1.5. Registration of brokers and agents

Brokers and agents are required to be registered with the SECP under the Brokers and Agents Registration Rules, 2001. At the end of financial year 2011, total number of brokerage houses registered with the SECP stood at 276 as compared to 299 in the year ending June 30, 2010. Stock exchange-wise categorization of corporate and individual brokers is as follows:

Stock exchange	Corporate brokers	Individuals	Total brokers
KSE	136	7	143
LSE	68	12	80
ISE	52	1	53
Total	256	20	276

The KSE accounts for 52% of total registered brokers as compared to 29% at the LSE and 19% at the ISE. Moreover, 93% brokers are corporate brokerage houses while 7% brokers are working as individual brokers.

The stock exchange-wise statistics with respect to certificates granted to agents, as of June 30, 2011, are presented in the table below:

Stock Exchanges	Number of agents as of June 30, 2010	Addition during the year	Cancellation/expiry of registration	Number of agents as of June 30, 2011
KSE	329	46	85	290
LSE	148	8	40	116
ISE	25	4	13	16
Total	502	58	138	422

5.4.2. Monitoring, enforcement and compliance

5.4.2.1. Monitoring and surveillance

As a part of its mandate to develop an efficient and transparent stock market and to inculcate integrity and fairness in the trading activity, the SECP has worked out a comprehensive strategy to identify any abusive, manipulative and irregular trading practice. The emphasis is to detect cases of market abuse including insider trading, front running, etc., which are contrary to the investors' interest and lead to loss of confidence in the markets.

In 14 violations of securities law, orders imposing penalties on the members of the stock exchanges and other stakeholders were issued. Warning letters were issued to 13 KSE members and four LSE members for possible violations. Moreover, two warning letters were issued to non-broker market participants for non-compliance of the securities laws. The summary of the enforcement actions taken is presented below:

Orders	
Nature of violation	Number of Cases
Insider trading	7
Blank sales	2
Wash trades	3
Inter-exchange trades	1
Provision of false information	1
Total	14

Warning letters	
Nature of violation	Number of Cases
Price manipulation	3
Blank sales	8
Wash trades	5
Non-compliance with Brokers and Agent Registration Rules, 2001	1
Non-compliance with general regulations	1
Non-compliance with Code of Conduct	1
Total	19

5.4.2.1.1. Enquiries of the expelled members of stock exchanges

During the year, enquiries under Section 21 of the Securities and Exchange Ordinance, 1969, were initiated in respect of the following expelled members of KSE:

i. MARS Securities (Private) Limited

ii. Ismail Abdul Shakoor Securities (Private) Limited

iii. Bagasara Securities (Private) Limited

iv. Durvesh Securities (Private) Limited

In addition, based on the earlier enquiry reports, finalized during the year, criminal complaints against the following brokerage houses were filed in the court:

i. Eastern Capital Limited

ii. MKA Securities (Private) Limited

iii. Clicktrade Limited

5.4.2.1.2. Compliance with the requirements of the Brokers and Agents Registration Rules, 2001

The SECP ensured compliance and appropriate punitive measures were taken in cases of violations. During the year the following enforcement actions were taken against brokers:

- Notices to 10 brokers were issued for misstating their status as clearing members registered with the NCCPL and subsequently certificates of registration of seven brokers were cancelled.
- Certificates of registration of four brokers were cancelled for being inactive members.
- The following three LSE brokers filed winding-up petitions in the Lahore High Court:
  - HSZ Securities (Pvt) Limited.
  - Khalid Javed Securities (Pvt) Limited
  - Wasi Securities (SMC-Pvt)

Consequent to the said petitions, enquiries under Section 21 of the Securities and Exchange Ordinance, 1969, were initiated against these brokers, which are under way.

5.4.2.1.3. Actions under Section 18A of the Securities and Exchange Ordinance, 1969

The submission of fictitious and multiple applications (more than one application by same person) is prohibited under Section 18A of the Securities and Exchange Ordinance, 1969, and any subscription money deposited with such applications is liable to be confiscated.

Nineteen orders were passed in respect of 40 applications and after being proven fictitious/multiple, subscription money of 20 applications amounting to Rs776,000 was confiscated. During the same period an amount of Rs52.851 million was recovered against the earlier confiscation orders.

5.4.2.1.4. Beneficial ownership

The SECP monitors trading activities of beneficial owners of listed companies through returns filed by them, prescribed information/annual returns filed by listed companies and trading data of stock exchanges. The primary objective of this monitoring is to detect the instances, where the beneficial owners have made gain by purchase and sale or sale and purchase of shares of issuer companies within a period of less than six months. The SECP received 2,238 returns during the period under review.

a. Actions under Section 224(2) of the Companies Ordinance, 1984 (Recovery of Tenderable Gain)

Five cases of tenderable gain were brought forward, while 29 fresh cases were detected. Six orders under Section 224(2) of the Ordinance were passed, wherein the beneficial owners were directed to tender Rs88,734,326 to the SECP. The position of tenderable gain cases as of June 30, 2011 is summarized below:

Status	Number of cases
*Orders passed	6
Gain tendered to the The SECP	2
Gain tendered to the issuers companies	5
Proceedings dropped	3
Under process	6
Proceedings to be initiated/not yet matured	12

**Four beneficial owners have filed appeals before the The SECP appellate bench*

b. Actions under Section 224(4) of the Companies Ordinance, 1984 (late filing of returns of beneficial ownership)

The returns of beneficial ownership and annual returns on Form A are required to be filed within the prescribed time limit. The following actions were taken, where the said returns were received with delay of more than 60 days:

Sr. No.	Category	Number of cases
1	Orders issued	19
2	Warning letters issued	126
3	Show-cause notices issued/proceedings under process	6

c. Awareness campaign for timely filing of returns

The beneficial owners of listed companies and the listed companies are required to file their returns of beneficial ownership on Forms 31/32 and annual return on Form-A respectively, within the stipulated time limit. However, it was noticed that some of the beneficial owners/companies were not observing the said time limit. Hence, in September 2010, the beneficial owners of the listed companies as well the listed companies were asked through two separate notices to file their overdue returns by October 31, 2010 and were also advised to ensure timely compliance in future.

5.4.2.1.5. Compliance and inspection

The compliance with relevant rules/regulations and effective monitoring are essential to strengthen market oversight and enforcement. Previously, the compliance function to a very limited extent was performed in isolation at the SECP and exchanges. However, in order to ensure compliance with relevant rules/regulations in all respect and at all levels, a dedicated compliance and inspection team has been set up to look at the following:

i. Off-site reporting

ii. On-site inspection

iii. Enforcement

During the period, a comprehensive database of rules and regulations, as applicable to all the stakeholders was prepared by identifying responsibilities of regulators, both apex and frontline. This was followed by a detailed exercise to determine the compliance status with respect to respective rules and regulations of the KSE and its members, which enabled the SECP to develop compliance reporting templates.

a. Off-site monitoring

During the period, 21 off-site reports, covering various rules and regulations and frequencies, were designed and finalized and sent to the three stock exchanges for filing. The stock exchanges have started filing the same with the SECP. The CDC was also advised to file prescribed reports with the SECP.

The off-site monitoring includes receipt of reports, as per prescribed templates and frequency to the SECP by the regulated entities. Since such reports are assessed and analyzed to identify and provide compliance status, which may lead to identification of potential high-risk areas. The purpose of off-site monitoring is threefold:

i. To verify data of submitted regulatory reports and periodic filing of financial statements

ii. To determine progress, if any, made by the regulated entity to remove the deficiencies detected during the on-site inspection

iii. To proactively identify negative trends and emerging problems in stock markets prior to their augmentation

b. On-site inspection

Inspection is a natural supplement to compliance. Guiding framework for on-site inspections in the form of inspection policy and inspection manual were prepared and approved. The policy and manual, inter alia, includes types of inspections, desired frequencies, detailed inspection procedures and code of conduct for inspectors.

5.4.3. Investor complaints

Quick resolution of investor complaints is an important instrument in restoring investor confidence. The SECP issued 11 show-cause notices to brokers for resolution of investor complaints, non-provision of information to the SECP and illegal brokerage houses. Further, three orders were passed for resolution of investor complaints.

in addition to this, the SECP entertained various complaints pertaining to the initial public offerings (IPOs). During FY2011 35 complaints were disposed. Status of such complaints is as follows:

Complaints' status FY2011	
Brought forward from previous FY:	13
New complaints received during FY2011:	28
Total Dealt with during the FY:	41
Disposed of during the FY:	35
Under process as of June 30, 2011:	6

5.4.4. Developmental activities

5.4.4.1. Review of the Companies (Issue of Capital) Rules, 1996

The Companies (Issue of Capital) Rules, 1996 (CI Rules) were promulgated on February 8, 1996 and contain a set of requirements and procedures for the companies proposing to offer share capital to the public. Since its notification, no amendment has been made to the CI Rules. Pursuant to introduction of the book building process, it was felt necessary to make certain amendments to the CI Rules. Further, it has been observed that certain clauses are unclear and create hurdles for the issuer/offerers. The CI Rules after making necessary amendments were notified for public opinion on September 8, 2010 and simultaneously comments of some key stakeholders were also obtained. After considering their feedback, the said draft CI Rules have been revised and forwarded to key stakeholders for input/feedback/comments prior to sending the same to Ministry of Finance (MOF) for approval.

5.4.4.2. Amendments to the Share Subscription Form

Further, the disclosure prohibiting submission of fictitious and multiple applications regarding Section 18A of the Securities and Exchange Ordinance, 1969, was translated into Urdu and now appears on the front and back of the Share Subscription Form.

5.4.4.3. Simplification of the procedure for listing of securities

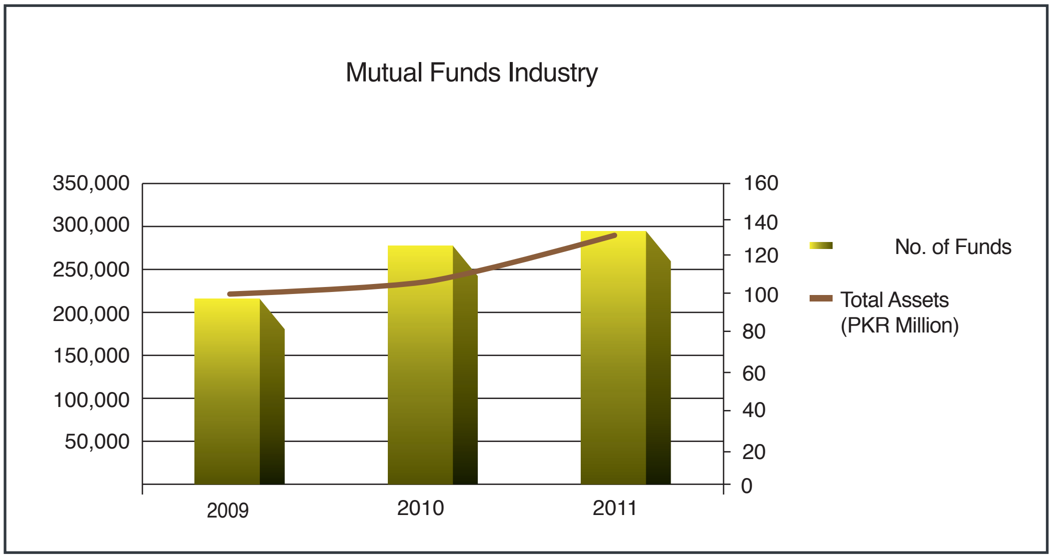
The SECP aims at making the process of listing of securities simple and efficient. In order to do so, it has rationalized the documents submitted by the issuers along with application for approval for listing of a company. Accordingly, necessary amendments to the Listing Regulations of the exchanges were made. Pursuant to these amendments the number of documents to be submitted to the exchanges has been substantially reduced.

SPECIALIZED COMPANIES

5.5. POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

Policy, Regulation and Development Department (PRDD) performs the functions of licensing, registration, provision of comprehensive regulatory framework and granting necessary regulatory approvals to the NBFC sector.

5.5.1. Mutual funds



During the financial year, mutual funds grew with an increased momentum as evidenced by a surge in total assets of over 21% to Rs290 billion, significantly crossing the growth figure of 4.4% for the financial year 2009-10. Earlier, investment in mutual funds was nominal since the industry, plagued by the financial crisis, gave rise to myriad issues such as difficulty in fair price discovery of debt securities, disparate provisioning treatment against defaulted corporate bonds by fund managers, cross-matching investments between funds and financial institutions, and mismatch of asset profile and investment style in open-end funds. Though a number of remedial measures such as improved methodology for valuation of debt securities, categorization of funds, and other investor protection measures were taken by the SECP, the mutual funds industry could not get the impetus that was needed to reverse the downward trend triggered by the crisis.

As of June 30, 2011, the number of mutual funds in the industry stood at 136 compared to 127 in June 2010. The upward trend in the assets under management is primarily attributed to change in the risk appetite of investors towards safer asset class, i.e., money market funds offering competitive returns with safety of capital and capital protected schemes. Though recovery in the equity markets was evident, flight to safety dominated the investment climate. Consequently, most of the funds launched during the financial year were in the category of money market and capital protected schemes which make a bulk of their investments in government securities and strong financial institutions.

During the period, the SECP implemented certain measures thus continuing its effort to facilitate the industry. The SECP extended the time period for maintaining equity portfolios held by asset management companies (AMCs) till June 30, 2011 in an attempt to provide cushion to the AMCs whose equity positions otherwise would have been adversely affected since market values of listed equity securities held by AMCs were much lower than their purchase prices. Furthermore, the SECP issued a circular wherein it was made mandatory for AMCs to enhance disclosure requirements of mutual funds, under their management, holding non-compliant investments with regard to either the assigned category or investment requirements of the constitutive documents. The primary rationale was to ensure that informed investment decisions can be made by investors.

Furthermore, in its continued efforts to protect the interests of unit holders and to facilitate the industry, the SECP took the following measures:

- Equity-oriented mutual funds were allowed to invest in all kinds of futures contracts to achieve their investment objectives effectively. This measure was taken in anticipation of growth and development of the futures market and is also expected to bring diversification for mutual funds industry.
- As a result of various discussions with the industry participants including Mutual Funds Association of Pakistan (MUFAP), a few AMCs voluntarily adopted Global Investment Performance Standards (GIPS), an internationally recognized global standard of performance presentation. It is envisaged that adoption of GIPS will enhance confidence of investors in the performance numbers reported by various industry players.
- In an attempt to enhance investor awareness about mutual funds, the SECP published an investor guide with details on all aspects of mutual funds including its pros and cons.
- Various AMCs had proposed automating the process of issuance, redemption, and transfer of units of mutual funds by offering these services online. The SECP encouraged the use of technology and approved the proposition.
- In conjunction with MUFAP, the SECP developed guiding standards for uniformity in presentation of monthly fund manager reports by AMCs with added disclosures pertaining to non-compliant investments held by mutual funds.
- The SECP convened several meetings with MUFAP to discuss important issues. These included valuation of debt securities, Bonds Automated Trading System (BATS) and imposition of Know Your Customer (KYC) measures to curb money laundering in the mutual funds industry.
- The SECP conducted meetings with industry participants on the technical aspects of Exchange-Traded Funds that need to be looked into prior to their launch in Pakistan.
- As per the requirements stipulated in its circular pertaining to categorization of mutual funds, the SECP ensured that benchmarks for all mutual funds are explicitly stated in their constitutive documents for performance comparison.
- The SECP allowed Income Mutual Funds to invest in Margin Trading System, a leverage product whereby mutual funds shall act as financiers.
- The SECP approved the proposal of MUFAP to launch a unified industry campaign promoting money market funds represented by the ten big AMCs in Pakistan.
- The SECP acquired services of an independent consultant to resolve the daunting problem of fair valuation of debt securities, which had significantly dried out liquidity from the debt market. The valuation report submitted by the consultant was thoroughly reviewed and shared with the industry for their feedback. It is envisaged that recommendations of the report shall be implemented in due course of time.

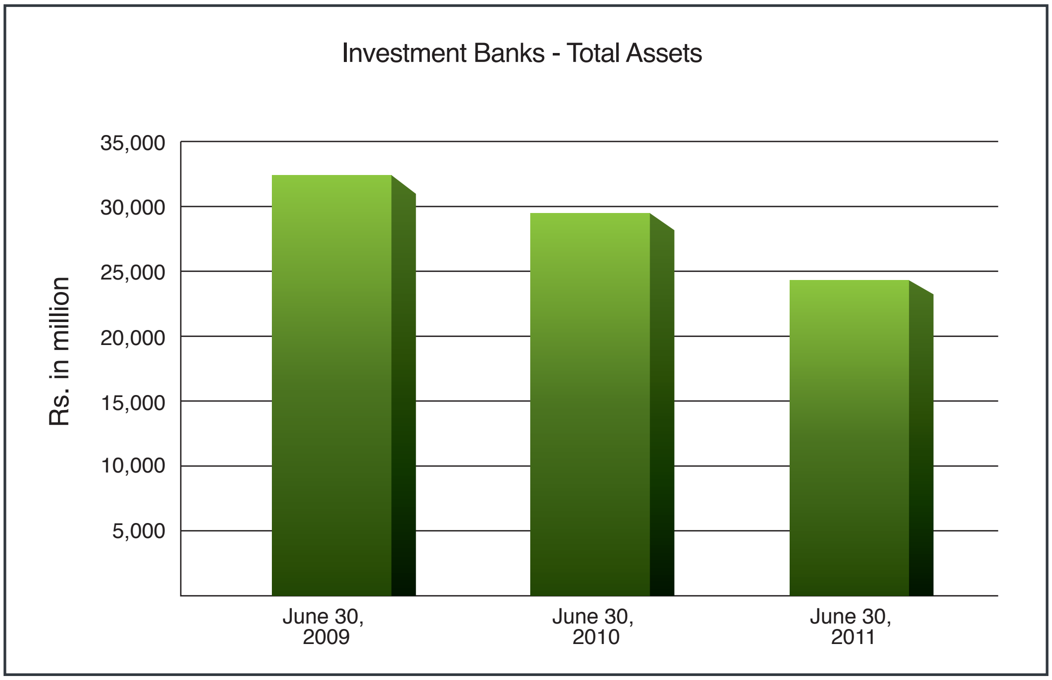
During the year, the SECP initiated efforts to amend the Non-Banking Finance Companies & Notified Entities Regulations, 2008 (NBFC & NE Regulations) with specific objectives pertaining to facilitation of the industry as well as the unit holders of mutual funds. It is envisaged that the amended Regulations shall be notified in the near future.

The salient features of these amendments include:

- Registration of trustee to bring it within the regulatory ambit;
- Eliminating the seed capital requirement for new funds;

- Empowering unit holders of a mutual fund in being able to change its management rights in case redemption of units is suspended beyond fifteen days; and
- Enhanced oversight by trustee of a mutual fund in line with international best practices.

5.5.2. Investment banks



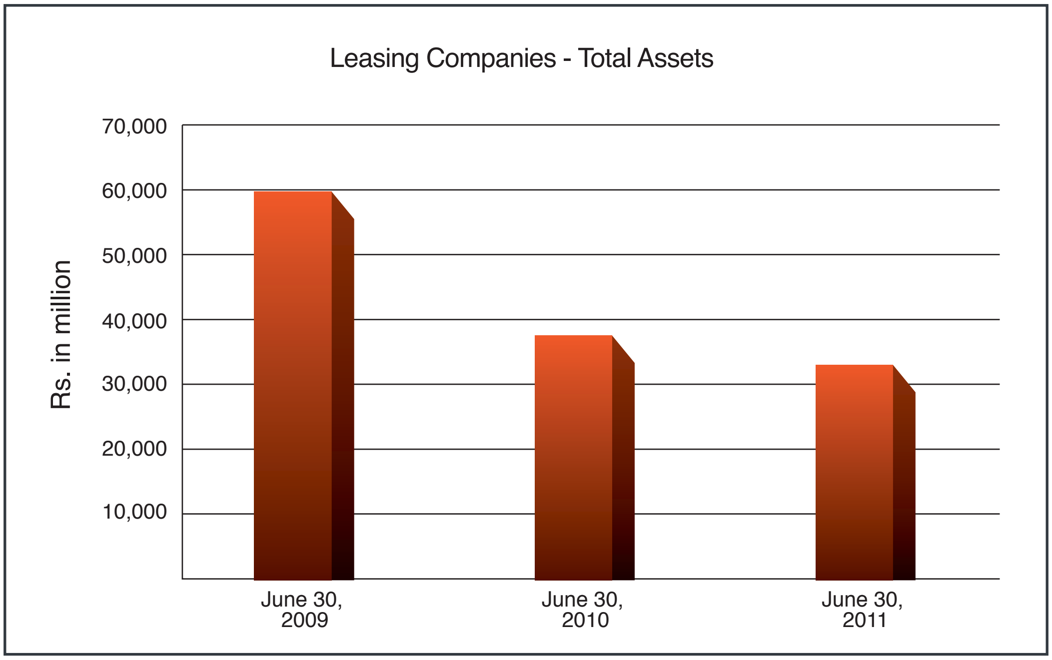
The investment banking started to take root in Pakistan in the second half of the 1980s. A broad range of business services were envisaged that included money and capital market activities, project financing, corporate financial services, and operations in call and money market. At present, there are only seven functional investment banks operating in Pakistan as compared to 13 in 2005. Significant reasons for the downfall of investment banking sector are:

- Small capital bases with limited ability to absorb significant shocks,
- Focus on quasi banking activities,
- Maturity mismatch in their assets and liabilities,
- Failure to develop competencies for delivering non-fund based services,
- Lack of relevant expertise and acumen,
- Failure to develop stable source of long term funds,
- High cost of funds,
- Limited capacity to expand outreach, and
- The rise of universal banking. Commercial banks are increasingly taking up the activities which were once the exclusive domain of investment banks.

Investment banks are an integral component of the Pakistani financial infrastructure. Pakistan's corporate sector has a perennial need for services such as investment advisory, corporate restructuring, distressed assets acquisition and disposal, merger and acquisitions, equity and debt financing. The need for these services will further intensify with the economy and the financial markets maturing further and thus offers bright prospects for investment banks proficient in these areas. Therefore, the investment banking sector should refocus their current strategy of imitating commercial banks and instead develop competitive advantages in specialized areas where commercial banks lack these capabilities.

The SECP is committed to reviving the investment banking sector and necessary amendments were made to the regulatory framework to allow investment banks to undertake brokerage business from their own platform instead of forming a separate company. The objective was to encourage investment banks to focus on providing non-fund based services, to play a crucial role in the capital market, to promote corporate brokerage houses culture and to address the corporate governance issues in the brokerage industry. The SECP is currently exploring the possibility of introducing an appropriate regulatory regime for non-deposit-taking and non-listed NBFCs and ensuring that only licensed entities engage in investment banking activities.

5.5.3. Leasing

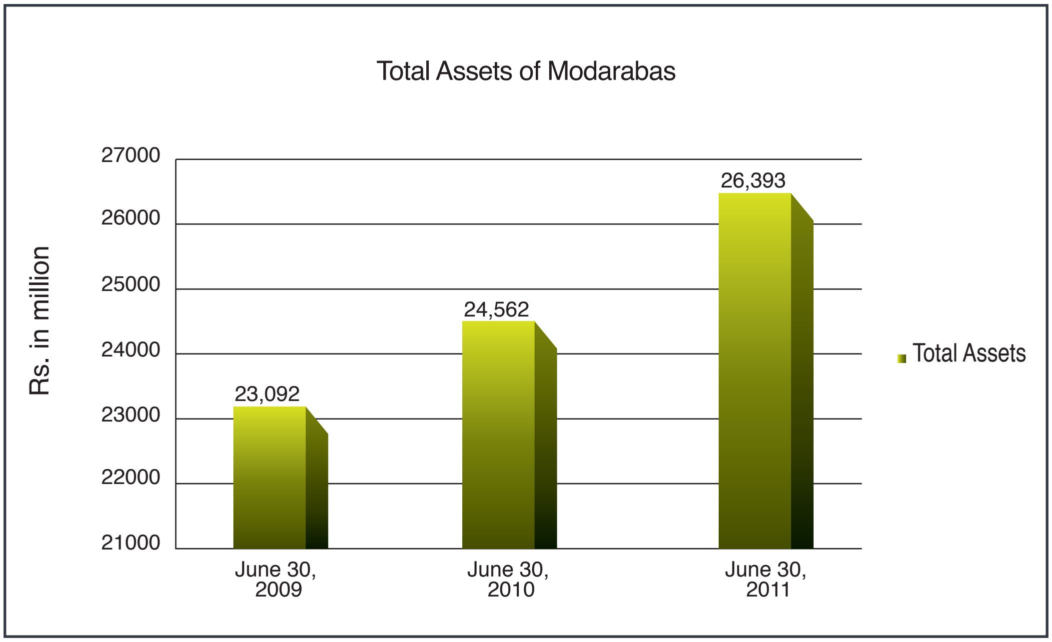


Leasing is a mature business model. However, the leasing sector in Pakistan has been facing a multitude of challenges like liquidity issues, low capitalization, limited sources for resource mobilization, high cost of funds, high level of non-performing assets and limited outreach.

The SECP is committed to promoting the sector by allowing them operational flexibility so that they can meet the specific financial needs of their customers. For this purpose, several important amendments to the applicable regulatory framework have been made over a period of time. During the year, an amendment has been proposed in Regulation 28 of the NBFC & NE Regulations, 2008, i.e., deleting the condition that requires a leasing company to fix the period of finance lease for not less than three years. This amendment is expected to increase the business volumes of leasing companies as they will be able to entertain customers who desire a shorter lease period and finance assets with a shorter economic life.

5.5.4. Modarabas

The modaraba sector has an established legal framework that allows it flexibility to provide wide range of financial products and services under the tenets of the Shariah, which reflect the innovative and dynamic nature of the industry. Modarabas have played a vital role in the development and growth of Islamic modes of financing in the country and the capital markets since their inception in 1980. Most of the modarabas in Pakistan are doing business in the financial sector while a few are engaged in the industrial, trading or other services sectors. Like any other industry, modarabas create a distinctive value proposition that meets the needs of its customers.



The recent global financial crisis has brought about an opportunity for the modaraba sector to position itself as a stable form of financial institution. It is worth mentioning that despite the financial and economic crises in the country, most of the modarabas continued to perform well and posted profits. As per the unaudited financial statements of modarabas as on June 30, 2011, the aggregate paid-up fund of modarabas was Rs8.746 billion. The total assets of the modaraba sector stood at Rs26.393 billion against Rs24.562 billion in the previous year. Similarly total equity of the modaraba sector was Rs11.561 billion which shows an increase of Rs661 million as compared with Rs10.900 billion during the previous year. In spite of recession in the market, as on June 30, 2010, out of 26 modarabas in existence, 18 modarabas declared cash dividend to their certificate holders ranging from 1.2% to 76%.

The SECP is committed to promoting growth in the modaraba sector. It has always encouraged the sector to introduce more innovative Shariah-compliant products and is focused on the development of Islamic financial services being provided by modarabas.

The SECP is reviewing and revising the regulatory framework for modarabas to make it more comprehensive so that more operational flexibility is available to market participants. This mainly includes amendments in the Modaraba Ordinance and Rules. The Prudential Regulations for Modarabas are also being reviewed to bring harmony between the regulatory framework for financial institutions under the NBFCs regime and modarabas.

Key statistics of modaraba sector are given in Table A:

Table A

(Rs in million)

Number of modaraba companies	40
Number of modarabas (in operation)	26
Number of modarabas under winding up	05
Number of modarabas under floatation	03
Total paid up fund *	Rs8,746
Total assets *	Rs26,393
Total equity*	Rs11,561

**Figures based on unaudited financial statements-30.06.2011.*

Major sources of funds for modarabas consist of equity and borrowing from banks and financial institutions mostly on musharakah basis. Besides, the modarabas may generate funds by issuing Term Finance Certificates, Certificates of Musharakah, etc. The funds raised through the said sources are utilized mainly in leasing, extending musharakah and murabaha facilities, investing in shares of listed companies, trading and manufacturing, etc.

5.5.4.1. Regulation of modarabas

During the year, several measures were taken to effectively regulate the business and operational activities of the modaraba companies and modarabas. The details are as under:

5.5.4.2. Permission to float modarabas

Extension was granted in the time for floatation of three modarabas: Modaraba Al-Tameer (Real Estate Modaraba); Modaraba Al-Makatib (Real Estate Modaraba); and Modaraba Al-Istethmar (Equity Market Operation and Islamic Money Market Operation)

5.5.4.3. Appointment of a new member of the Religious Board

During the period under review, a case for appointment of a new member of the Religious Board to fill up a casual vacancy was submitted to the Ministry of Finance. The Ministry of Finance approved the appointment of Mufti Munib-ur-Rehman as member of the Religious Board for Modaraba on March 9, 2011.

5.5.4.4. Approval for issuance of Certificates of Musharakah by a modaraba

In order to facilitate modarabas in raising deposits from the general public to broaden their business operations, approval for issuance of Certificates of Musharakah was granted to a modaraba.

5.5.4.5. Registration, modification and vacation of charges

Rule 27 and 28 of the Modaraba Companies and Modaraba Rules, 1981, require that every mortgage or charge created by a modaraba is required to be registered with the Registrar (Modarabas). During the period under review, ten cases of registration, modification and vacation of mortgages/charges created by various modarabas were registered & registration certificates issued.

5.5.4.6. Appointment of auditors of modarabas

Rule 19 of the Modaraba Rules, 1981, requires that fresh appointment of auditors shall be made with the approval of the Registrar (Modarabas) and terms of appointment of existing statutory auditors should be renewed every year with the prior approval of Registrar Modaraba. During the period, 24 cases for approval of appointment of auditors were processed.

5.5.4.7. Relaxation of Prudential Regulations

In order to improve operational activities, relaxations from the applicability of certain Prudential Regulations for Modarabas with appropriate risk management criteria were granted to nine modaraba companies on the recommendations and justification provided by their board of directors.

5.5.4.8. Investors' complaints

Complaints received from investors during the year under review mainly pertained to non-receipt of dividend warrants, delay in transfer of certificates and non-receipt of annual and periodical accounts.

Immediate and appropriate actions were taken on all such complaints received and issues were resolved.

5.5.4.9. Issuance of circulars

During the period, four circulars were issued. The circulars mainly pertained to appointment of a new member of the Religious Board by the federal government, revision of fee schedule under the Modaraba Rules, additional condition prescribing requirements for appointment of new chief executive of modaraba companies and clarification on applicability of certain provisions of the Third Schedule to the Modaraba Rules on transactions pertaining to ijarah.

5.5.4.10. Enforcement actions

Orders for on-site enquiries of nine modarabas were issued under Section 21 of the Modaraba Ordinance. The sole purpose of these inspections was to gauge the true financial health, review performance of the management and the board, and assess level of compliance of the modaraba with the prevailing regulatory framework. On the basis of the enquiry reports, necessary regulatory enforcement actions were initiated. The details are as under:

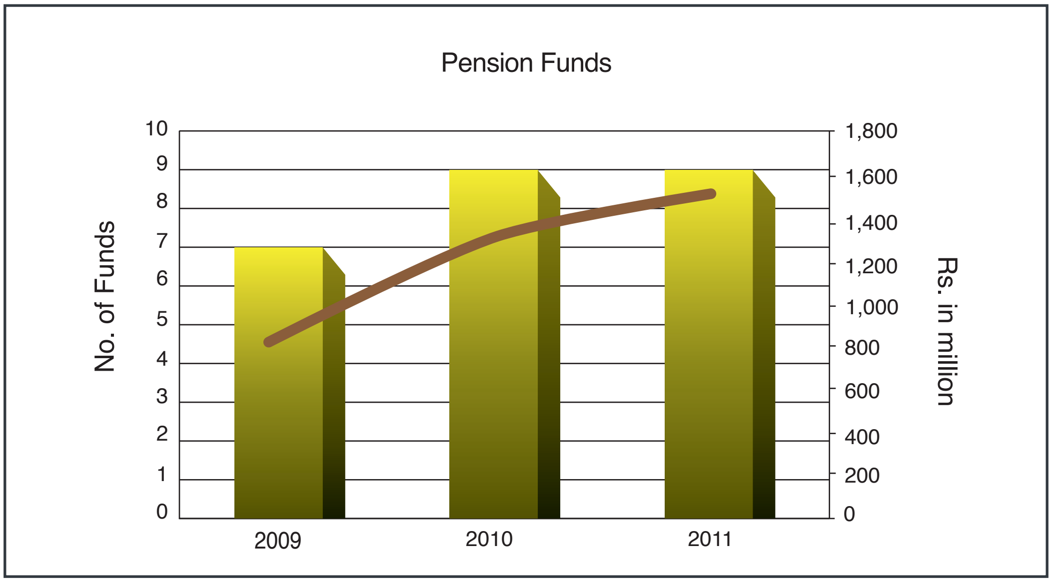
- Four show cause notices were issued to modaraba companies and their CEOs/directors under Sections 19, 20, 21, 23, 32 of the Modaraba Ordinance mainly for violations of the modaraba regulatory framework.
- In the cases of four modarabas, orders under section 20 and 32 of the Modaraba Ordinance, 1980 were passed by the Registrar Modaraba and penalties imposed on the chief executive and directors of the modaraba companies for violations of the Modaraba Ordinance, the Modaraba Rules, the Prudential Regulations, prospectuses, non-compliance of International Accounting Standards and non-observance of the Code of Corporate Governance.

5.5.4.11. Developmental activities for modarabas

The details of developmental activities undertaken during the period are given below:

- The State Bank of Pakistan and the SECP have established a joint forum for the development of Islamic financial services in Pakistan. During the period, guidelines to promote musharakah and modaraba financing by Islamic banking institutions (IBIs) prepared by the SBP were discussed and necessary input was provided to them.
- Modarabas deduct zakat on their dividends paid to their certificate holders. However, in the Zakat and Ushr Ordinance, 1980, modarabas are not specifically and legally authorized to deduct zakat on their dividend payment. Similarly, modarabas have not been included in the list of 'Sahib-e-Nisab' entities, due to which zakat is being deducted on the dividend received by modarabas on their investments. In order to legally authorize modarabas to deduct zakat on their dividend by including modarabas in the list of deducting agency and exclusion of modarabas from the definition of 'Sahib-e-Nisab' entities, a case was submitted to the Ministry of Religious Affairs for the required amendments to the Zakat and Ushr Ordinance.
- In terms of Workers Welfare Ordinance, 1971, modarabas are required to contribute 2% of their taxable income to the Workers Welfare Fund (WWF). As provided in the Income Tax Ordinance, 2001, the income of modarabas is exempted from tax provided 90% of their income is distributed in cash to their certificate holders. Since Workers Welfare Ordinance, 1971, does not envisage any provision of the applicability of WWF on those entities whose incomes are exempted from income tax; a request was submitted to the Ministry of Labour & Manpower for exempting modarabas from the payment of WWF in light of a similar exemption granted to mutual fund industry.

5.5.5. Pensions



During the period one company was registered as pension fund manager after ensuring compliance to the requirements specified in the Voluntary Pension System Rules, 2005 (the 'VPS Rules').

Certain tax anomalies were spotted in the tax law with regard to retirement schemes. Therefore, necessary proposals were prepared in consultation with the industry and followed up with the FBR to secure parity in the tax treatment between private pension schemes and occupational retirement schemes. The proposals included:

1) Admissibility of tax rebate on contributions into VPS up to 20% of taxable income.

2) Exemption from the applicability of minimum tax on VPS.

3) Synchronization in the tax law clauses permitting a participant to withdraw up to 50% of his accumulated balance tax free on reaching the retirement age.

4) Tax neutral transferability of accumulated balance between VPS and other occupational retirement schemes.

5) Exemption from payment of tax on periodic withdrawal of balance accumulated in a pension fund on attaining the age of retirement.

Out of the five proposals listed above, the first three were accepted and made part of income tax law, while the latter two were not acceded to this year.

The VPS Rules were notified in 2005, and since that time a number of changes have taken place in the market. Therefore, amendments were drafted to allow operational flexibility to pension fund managers, enhance role of their trustees, provide more freedom of choice to participants and ensure that investors' interests are better protected. The draft prepared in this regard will be shared with the stakeholders and amendments will be notified after considering proposals/feedback so received on the draft.

Investment policy for pension funds was revised to facilitate orderly growth of the private pension funds industry. The revised policy envisages:

- Adjustments in per sector exposure limits for conventional and Shariah-compliant pension funds;
- Increase in weighted average time to maturity of assets of Shariah-compliant money market sub-funds from 90 days to one year ;
- Permission to Shariah-compliant money market sub-funds to invest in Government Ijarah Sukuks with maturity up to three years.

The benchmark for gauging performance of pension funds managed by different fund managers was worked out. Performance of four sub-funds was found below the benchmark. The matter was taken up with respective fund managers for explanation and necessary corrective measures.

Returns generated and expenses incurred by different pension funds were computed on six-monthly basis as specified in the VPS Rules. The information was published in the press for the education and benefit of the public.

The VPS Rules allow a participant to purchase an income drawdown plan from the pension fund manager on achieving retirement age. Two such plans were scrutinized and approved. These plans offer a mechanism for withdrawal of money as pension by a participant from his or her account while allowing investment of the outstanding balance.

The SECP engaged a consultant under an ADB sponsored project to develop a comprehensive regulatory framework for occupational pensions and savings schemes.

The consultant prepared a draft bill titled "Pension and Provident Fund – Registration and Regulation Bill" envisioning empowerment of the SECP to oversee retirement savings schemes in a phased manner. The first phase targeted registration of all schemes; the second phase envisaged transforming the current schemes and funds into trust structure and expected adherence to investment guidelines; and the third phase consisted of developing reporting and auditing mechanism to ensure compliance with law.

The draft bill was discussed with the Ministry of Finance, Ministry of Labour and Manpower and the FBR to obtain their views on the proposed legislation. The representative of Ministry of Labour and Manpower disclosed that through the 18th Amendment the subject of legislation on labor was devolved to the provinces. The amendment has the effect of conferring powers of legislation relating to labour solely upon the provincial governments. The Federal Government has constituted an Implementation Commission which shall complete the devolution of functions from the Federal Government to the provincial governments till June 30, 2011.The devolution period is currently in progress. Once this process is over, the labour mandate of federal and provincial governments would be accordingly revised.

The SECP is a member of the International Organization of Pension Supervisors (IOPS), which draws members from pension regulators. Information concerning private pension fund industry in Pakistan was shared with IOPS to be made part of OECD Global Statistics. The comparison usually covers nominal and real returns earned by funds, pattern of asset allocation by pension funds and size of pension fund industry relative to size of any economy.

5.5.6. Real Estate Investment Trusts (REITs)

The SECP had conceived the idea of providing a framework for launch of REITs in 2005 to provide impetus to the economy and to open up a window for the public to invest in real estate. REITs have contributed substantially in the growth of economies in Asia. Japan, Singapore, Hong Kong, and Malaysia all have introduced REITs in the past few years.

The SECP promulgated REIT Regulations in 2008 which provide criteria for setting up management companies, structure of REIT funds, minimum disclosures required for inviting investment in REITs, reporting, auditing and valuation criteria and the fee structure. REITs are yet to get a foothold in Pakistan for various reasons.

Pakistan's economy saw vibrant growth in the years 2002 to 2007 when the economic indicators were positive and real estate prices were also exhibiting an upward trend. Subprime mortgage crises of 2008 shattered the confidence of investors worldwide. Local investors also became risk-aversive due to meltdown of financial system coupled with security situation in the region and consequent fall in the stock markets. The demand for commercial properties gradually subsided and euphoria for investment in residential schemes appeared to be over by 2008 – the time when REIT Regulations were notified. On the contrary, inflation and discount rates began to escalate. The increase in discount rates diverted the attention of investors from real estate to investment in government securities, gold and national savings schemes. The situation was exacerbated by the fact that a critical shortage of water, electricity and gas emerged all over the country and the real estate developers faced problems in getting new connections for the existing and upcoming development schemes.

Keeping in view the macroeconomic indicators, the SECP has taken necessary measures to attract entrepreneurs to venture into the regulated real estate business, amongst these, amending the REIT Regulations in 2010 was one initiative taken in this direction. Significant amendments included reduction of fund size, introduction of hybrid REITs and reduction in share capital for the REIT management companies (RMCs). As a result, the SECP received two new applications for launch of REIT Schemes during the year in addition to the ones already under consideration.

The proposals were examined and deficiencies in the title documents and other issues in the proposed properties were communicated to the management companies. The issues included undecided court cases, encumbrances, variation in valuation of properties and absence of clear title documents. The management companies and property owners have yet to share progress made on the issues.

Discussions were initiated with a prospective trustee company to help identify the prerequisites for operating as trustee and evolving necessary capabilities to adequately deliver the role and fulfill responsibilities of trustee of REIT schemes. The trustee company is yet to arrange and share the measures taken in this regard.

5.6. SUPERVISION DEPARTMENT

The Supervision Department (SD) is primarily responsible for centralized functions of on-site inspection, off-site surveillance and enforcement.

5.6.1. Offsite surveillance

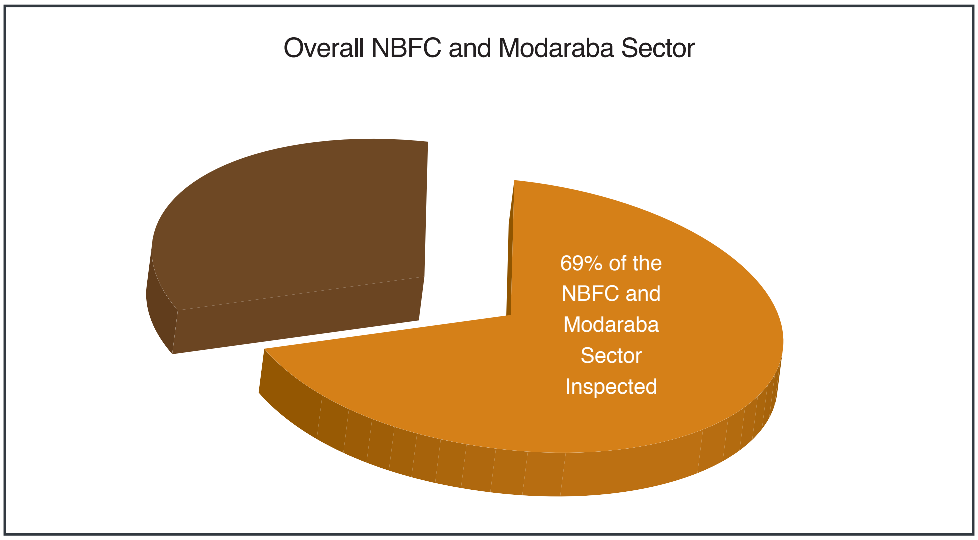
The Specialized Companies Return System (SCRS) was started in January 2010 to facilitate the NBFC sector in filing returns to the SECP based on which, detailed review of each entity is conducted every quarter. Hence each entity (AMC/mutual fund, leasing company, investment bank, modaraba and venture capital firm) is examined every quarter on the basis of the published quarterly/half yearly/annual accounts and information submitted by the NBFC through the SCRS.

There are two ways through which the surveillance function is carried out, i.e., one through offsite review of the information submitted to the SECP in the form of published accounts on a quarterly, half yearly and annual basis and the other through review of information submitted through SCRS on monthly basis. Development of the SCRS has added significant strength to the overall surveillance capacity.

During the year the SECP achieved 100% review coverage of entities pertaining to the NBFC & modaraba sector.

5.6.2. Onsite inspection

During the year inspection of 14 AMCs/IAs, three leasing companies, four investment banks, 13 Modarabas and two venture capital firms, covering 69% of the overall NBFC & modaraba sector, were carried out.



Major findings of onsite inspections and offsite reviews are as follows:

- Front running
- Keeping deposits by the mutual funds on low mark up rates despite the fact that the market was offering a much better rate, thus depriving the fund's investors from better returns
- Inappropriate composition of board and management level committees, including audit committee and investment committee
- Issues of system and control, including issues relating to the performance and independence of internal audit function of the NBFCs
- Weaknesses particularly in areas of credit risk management by income funds
- Capital adequacy of the NBFCs especially with reference to the requirement for minimum equity as laid down in the regulations
- Cases of under-provisioning of the non-performing assets
- Cases of higher exposure with single entity and group entities
- Liquidity problems faced by the NBFCs and factors leading to further aggravation
- Investment in group companies/related parties
- Inappropriate/inaccurate information in fund managers' reports

5.6.3. Enforcement actions

An independent review was carried out of the observations/violations reported in the onsite inspection reports and offsite review reports. Once an independent view is developed, appropriate enforcement action is taken on the respective observation/violation.

During the year following major actions were taken:

- Show cause notice was issued for violation of section 38(a) of the NBFC & NE Regulations. The AMC managing a fund failed to manage assets of the fund to the best of its ability and thus unit holders of the fund had to suffer loss
- Show cause notice was issued for violations of certain sections of the Ordinance
- Issues highlighted in the offsite review reports with regard to the low mark-up rates offered on deposits kept by certain funds with some banks were taken up. AMCs managing such funds renegotiated higher mark-up rates with the banks which were offering low rates, thus improving funds' return further
- Senior management and board members of problematic depository institutions were pursued to enhance/expedite efforts being undertaken by them to improve financial condition of the respective NBFC, settle the NBFC's financial obligations towards individuals and institutions and to increase equity of the NBFC to meet minimum equity requirement as laid down in the NBFC & NE Regulations
- NBFCs facing liquidity problems were advised to redeem deposits raised from individuals as and when they become due
- Warning/compliance letters were issued to NBFCs on observations/violations pertaining to system and control (particularly weaknesses in their internal audit function and role of the audit committee of their boards) highlighted in the onsite inspection reports
- Enforcement actions were taken on the observations highlighted in the onsite inspection reports pertaining to in-appropriate composition of board/management level committees in certain NBFCs. These actions were taken through compliance letters and respective NBFCs confirmed having made appropriate changes in their committees accordingly
- Compliance/warning letters were issued for certain other violations/observations assessed from the onsite inspection and offsite review reports

INSURANCE

Sector overview

The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector remained underdeveloped relative to its potential. As of December 2010, the industry's total premium revenue stands at Rs99.8 billion.

The market is fairly liberalized as 100% foreign ownership and control of insurance companies is permitted with paid up capital requirements as $4 million, with the condition of bringing in a minimum of $2 million in foreign exchange and raising an equivalent amount from the local market.

The minimum capital requirements are being increased in a phased manner, though they still remain modest by international standards, at Rs300 million for non-life and Rs500 million for life insurance companies, respectively.

Currently there are 39 non-life insurers operating in the market including three takaful operators (Islamic insurance) and one state owned company, National Insurance Company Limited (NICL), which has a monopoly over government business including semi autonomous entities. About 65% of the market share in gross written premium rests with the top three players. In 2010, the sector grew by 3.45%. The main reason for recent sluggish growth has been the political instability, law and order situation and the global recession with an adverse impact on Pakistan's economy. However in 2010, the total premium of non-life insurance sector stands at Rs45.9 billion. In addition, a government owned reinsurer, the Pakistan Reinsurance Company Limited, continues to benefit from a mandatory minimum 35% share in the treaties of non-life companies.

There are nine life insurance companies, including two takaful operators and one state-owned corporation in the life insurance sector. In 2010, the life insurance market grew by 26.78%. Currently, the State Life Insurance Corporation enjoys a monopoly with almost a 66% market share in terms of gross written premium. However, the total premium of the life insurance industry for the calendar year 2010 stands at only Rs53.8 billion.

There are two dedicated health insurance companies in the market along with two life insurance companies, involving foreign equity, and two non-life foreign companies. The market has witnessed introduction of new insurance products in health, crop and livestock. New distribution channels such as Bancassurance, websales and telesales are also growing rapidly.

5.7. POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

Responsible for policy and regulatory reform, actuarial work, re-insurance treaty, facultative reinsurance approval, NOC for purchasing insurance policy from abroad, registration and de-registration

5.7.1. Compliance with Anti-Money Laundering Act, 2010

The procedure and manner in which information is to be furnished to Financial Monitoring Unit under the Anti-Money Laundering Act, 2010, are being regularly advised and enforced for all insurance/takaful companies and insurance brokers for due compliance.

5.7.2. Delisting of insurance companies by banks in contravention of the Section 86 of Insurance Ordinance, 2000

The insurance industry had been experiencing some problems with regards to providing insurance cover to the banks and financial institutions. These included non-existence of any disclosed criteria for panel enlistment of the insurance companies adopted by the banks, delisting/removal of insurers from the panel of banks without any just reason, and grossly varying per-party/per-risk limits adopted by different banks. The SECP took up the matter with the State Bank of Pakistan and steps were taken to resolve the issue.

5.7.3. Development of guide publications

In order to increase awareness about the insurance sector, a need was felt to introduce easy-to-understand guides on the insurance regulatory framework. The Insurance Division developed and published three guide books titled Insurance Guide, Guide to Common Insurance Products and Takaful Guide.

5.8. SUPERVISION DEPARTMENT

The Supervision Department is responsible for the centralized execution of the on-site inspection, off-site surveillance and enforcement functions.

During the period, the SECP conducted four on-site inspections and 48 off-site examinations and other activities pertinent to supervision.

The enforcement team initiates proceedings against the non-compliant insurance entities. These proceedings are instituted by issuing show cause notices followed by an order or a directive based on the legal provisions. The objective is to ensure that the interests of the insured are adequately safeguarded and to ensure that the liabilities under insurance contracts can be fulfilled at all times. In this respect, particular importance is attached to solvency supervision. Insurers are also encouraged to establish adequate technical provisions, invest their assets safely and profitably and observe the principles of good business practice.

Based on offsite examination and onsite inspections, the SECP has taken the following regulatory enforcement actions:

- Fifty-four show-cause notices were issued to the insurance/takaful entities for contravening the various provisions of the Insurance Ordinance, 2000, and the Companies Ordinance, 1984. Two show-cause notices were issued to the surveying companies for not complying with the provisions of Section 112 and Section 113 of the Insurance Ordinance.
- During the same period, 55 orders and nine directives were issued to the insurance/takaful entities for contravening the various provisions of the Insurance Ordinance and the Companies Ordinance, 1984. Two orders were issued to the surveying companies for not complying with the provisions of Section 112 and Section 113 of the Insurance Ordinance.

STRATEGY, DEVELOPMENT, LEGISLATION AND EXTERNAL RELATIONS

5.9. STRATEGY, DEVELOPMENT AND EXTERNAL RELATIONS DEPARTMENT

The Strategy, Development and External Relations Department was created in April 2011 expanding the scope of the former International Affairs, Communication and Coordination Department (IACC) and later was made part of the Strategy, Development, Legislation and External Relations Division (SDLER). The department's mandate includes strategic development, investor education, complaint handling and liaison and coordination with all entities external to the SECP both at national and international including regulatory standard setting bodies, multilateral agencies, counterpart regulators Federal Government and the media etc.

5.9.1. International Organization of Securities Commissions (IOSCO)

a. Multilateral Cooperation - Appendix A of IOSCO MMoU

The SECP became a full signatory to the IOSCO' Multilateral Memorandum of Understanding (MMoU) concerning Consultation, Cooperation and the Exchange of Information. This reflects the SECP's ability to meet the international standard for securities enforcement cooperation as set out in the IOSCO MMoU Appendix A. Earlier, the SECP was listed on Appendix B of the MMoU having previously been assessed to make arrangements to comply with the requirements of the MMoU. The recent assessments found that the SECP has adequately addressed the previously identified gaps and was invited to graduate from the status of IOSCO MMoU Appendix B to MMoU Appendix A, joining a group of 72 other jurisdictions listed under Appendix A. An MMoU signatory can request other signatories' cooperation to deal with securities' crimes such as insider dealings, market manipulation, manipulative practices and wrongful practices by investing advisors, brokers, and other market intermediaries.

The signing of the MMoU indicates the SECP's commitment to protect the investors and maintain integrity of Pakistan's capital markets from the risks posed by cross-border market misconduct. This will help SECP to reduce the ability of offenders to evade detection where activities take place across different jurisdictions and will increase the attractiveness of our markets to international investors.

b. IOSCO Emerging Markets Committee (EMC) WG3

The SECP has been chairing the IOSCO's Emerging Markets Committee (EMC) Working Group on "Regulation of Market Intermediaries"(WG) 3, since October 2003. The Financial Supervisory Services Korea joined WG3 as co-chair in September 2009. Being the co-chair, the SECP has prepared an exhaustive set of guidelines through its report "Efficient Regulation of Conflicts of Interest Facing Market Intermediaries", which was approved by the EMC at the EMC annual conference in Istanbul and thereafter published as an IOSCO report and placed on IOSCO's website.

A survey of the 24 EMC member jurisdictions was undertaken to obtain feedback and analyze their practices on addressing the conflicts of interest facing market intermediaries. The report developed in terms of the mandate and results of the survey, broadly examines the current regulatory infrastructure for market intermediaries and approaches adopted by the regulators to address conflicts of interest in different jurisdictions. The report lays down guidelines to effectively address the conflicts of interest faced by the emerging markets.

The WG3 on completion of the mandate on conflict of interest adopted a new mandate in November 2010 to develop "Recommendations on Regulation of Nominee Accounts in Emerging Markets", as approved by IOSCO EMC. Objective of the mandate is to review the securities holding systems; identify common regulatory issues and effective regulatory mechanisms and develop recommendations for effective regulation of nominee accounts that regulators in the EMC member jurisdictions may take guidance from.

A questionnaire was circulated in EMC member jurisdictions regarding their practices and approaches on the supervisory framework of nominee account structure, to which responses were received from 20 jurisdictions. WG3 presented a summary of responses in EMC meeting during the IOSCO annual conference in April 2011. WG3 will release the draft Report on Regulation of Nominee Accounts for comments/feedback of the EMC members in August 2011 and will present the final report to the EMC in its annual conference in October 2011.

c. Other activities at international forum - IOSCO

The SECP continued to contribute in the IOSCO work-streams undertaken by other working groups and task forces of the IOSCO EMC. Feedback on capital markets practices was provided to all EMC projects. The SECP joined as a member of the project team of IOSCO's EMC WG 2, chaired by the China Securities Regulatory Commission (CSRC) on the mandate to "Develop Regulation of Institutional Investors in Emerging Markets". The SECP contributed in the development of the WG2 questionnaire on the mandate to seek members' feedback on current regulatory practices on regulation of institutional investor.

The SECP participated in the 4th annual survey undertaken by the EMC Chairman's Task Force. The report of the Task Force addresses the regulatory and supervisory challenges facing EMC securities regulators and provides recommendations to meet these challenges.

Furthermore, the SECP also participated in a survey conducted by the IOSCO EMC WG 2 on 'Day Trading in Emerging Markets' and a joint survey between the IOSCO EMC WG 4 and the IOSCO Standing Committee 4 on best practices on the use of digital evidence in cross-border investigation.

5.9.2. Bilateral cooperation

The evolving globally integrated financial markets necessitates the regulatory agencies of capital markets to develop cooperative linkages to ensure information sharing for enforcement of securities laws and to facilitate detection and combat of cross border violations. The SECP has been promoting co-operation with counterpart regulatory bodies of the capital market at the international level. It has established co-operative arrangements through Memorandums of Understandings (MoUs) with counterpart regulatory authorities of India, the Maldives, Australia, Bhutan, Sri Lanka and Iran. During the year the SECP signed an MoU for exchange of information and cooperation with the CSRC in a bid to further enhance regulatory cooperation and information sharing between the two counterpart regulatory authorities of Pakistan and China. The MoU was signed in Islamabad on December 18, 2010 in the presence of visiting Chinese Prime Minister Mr. Wen Jiabao and Pakistan's Prime Minister, Mr. Yousaf Raza Gilani.

5.9.3. Code of Corporate Governance (Code)

During the year the SECP worked on revising the Code of Corporate Governance (2002) taking into account the concerns of market participants, and international best practices especially those surfacing after the financial crisis. The revisions in the Code will take into account the lessons learnt from practical issues and considerations relevant to listed companies to ensure that it reflects changing governance concerns, practices and economic circumstances.

Based on the recommendations received from the PICG Task Force and the internal committee formed at the SECP, revisions were proposed in the Code and placed on the SECP website for stakeholders' comments in October 2010. Subsequently, the Code was further amended in view of the stakeholders' feedback. The SECP has held a series of roundtable meetings with important market players in July and September 2011, to finalize the Code. Based on the final round of discussion and stakeholder feedback, it is anticipated that the amended Code will be implemented by November 2011.

5.9.4. Anti-Money Laundering

The SECP is responsible to strengthen Anti-Money Laundering (AML) regime in Pakistan in the areas under its ambit including; NBFC, brokers, insurance companies and the NPO sector. It liaises with the MOF, the Financial Monitoring Unit (FMU), and the Asia Pacific Group (APG) to deliberate on international AML requirements and assists in implementing the measures.

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

During the year, the SECP made progress on implementation of measures to address the gaps within NBFCs, brokers and insurance sector, as identified by Pakistan's Mutual Evaluation (ME) on AML/CFT regime, jointly conducted by the APG and the World Bank in 2009. The specific measures to be implemented in this regard include issuance of regulations/directives on Client Due Diligence (CDD)/Know Your Customer (KYC), carry out regular inspections, and establish sanctions regime for non-compliance with the AML requirements.

The SECP has also initiated the process to frame requisite circular/directive for the capital market and insurance sector to strengthen the AML CDD/KYC regime.

The SECP is also a member of the Egmont Group Membership Committee that is evaluating the FMU's membership application. Egmont Group is a forum for Financial Intelligence Units (FIUs). The Committee after deliberations has identified the provisions of the AML Act that have to be brought in line with the international obligations prior to seeking Egmont Group membership.

The Senate Standing Committee on Finance, Revenue, Economic Affairs, Statistics and Planning and Development while recommending the adoption of the AML Bill by the Senate, had advised the MOF to bring about improvements to the AML Act, 2010. The SECP being a member of AML Law Review subcommittee, contributed in the process of amendments/revision of the AML Act. The SECP also initiated work to meet the targets for the actions recommended by the Regional Review Group in their final report. In light of the recommendations of the APG and Regional Review Group (RRG), the SECP has proposed to include insider trading as a criminal offence in the draft Securities Act that on promulgation will replace the Securities and Exchange Ordinance, 1969 (SEO 1969).

5.9.5. United Nations Security Council Circulars

The SECP regularly forwards the Gazette Notifications received from Ministry of Foreign Affairs (MOFA) regarding freezing of funds and other resources of individuals and entities included in UN 1267 Committee's Consolidated List, among its regulatees for taking necessary action where required and also receives compliance reports thereon. It also directs its regulatees to regularly visit the list appearing on the UN Security Council (UNSC) website for freezing of funds against the entities/individuals listed therein. The compliance reports received in this regard are shared with the MOFA.

5.9.6. ADB's Second Generation of Capital Market Reforms (SGCMR) Program

The SGCMR program was an assistance package of the Asian Development Bank (ADB) for capital market reforms through a loan of $400 million to the Government of Pakistan (GOP) and a technical assistance (TA) grant of $1 million to the SECP and the Privatization Commission to support the implementation of the program. ADB released the second tranche of $200 million to the GOP on June 30, 2011, upon successful compliance of the second tranche loan conditions by the SECP. The project and the TA were successfully completed on September 30, 2010. Some of the milestones achieved under the program were:

- The draft SECP Act, that strengthens overall regulatory governance
- The new Securities Act
- Development of a legal and regulatory framework on the reporting requirements of holding companies, including: (i) ownership structure and the relationship of companies within the holding company group; (ii) disclosure of inter-company and related party transactions; and (iii) public disclosure of audited financial reports in accordance with international accounting standards
- Development of certification for securities market professionals and mutual fund sales agents
- Designation of a compliance officer at all brokerage houses
- Self-assessment undertaken to determine compliance with international best practices in the regulation and supervision of securities markets and private pension funds.

5.9.7. Technical assistance grant to the SECP

The technical assistance grant was primarily utilized by the SECP to engage international and local consultants, provide training to the SECP officers & for investor education and awareness activities. Brief details of the consultancies completed during the year & other activities are given below:

- Harmonization of the regulatory framework governing capital markets in Pakistan for ensuring a rationalized regulatory framework;
- Development of investigation/inspection manual for the SECP enforcement actions encompassing procedures adjudication proceedings;
- Assistance to the Institute of Capital Markets (ICM) to improve public awareness of the Pakistan capital markets, strengthen program offering, develop a forum for business policy roundtables and procurement of books;
- International Pension Regulation for establishment of a unified supervisory and regulatory framework for occupational saving schemes for companies;
- Valuation methodology of corporate bonds and provisioning criteria for non-performing debt securities for CIS;
- Examination and recommendations on efficiency of the prevailing risk management regime in Pakistan relating to stock and commodity exchange traded product;
- The SECP published 16 sets of guidebooks under ADB TA for facilitation of investors. Prepared in collaboration with the operational departments, these guides are also available on the SECP website. The guides mainly pertained to corporate sector, non-banking financial sector, capital markets and insurance sector;

- A two-day seminar for awareness of prospective investors was conducted at the Institute of Business Administration (IBA), Karachi. The seminar focused on the products offered in the securities markets, corporate sector, specialized companies and insurance sectors.

5.9.8. Proposals for Finance Bill 2011

The SECP in order to rationalize taxes to boost growth of the sectors under its purview while at the same time ensuring that these sectors make equitable contribution to the government exchequer for overall development of the country, working in close conjunction with the FBR has been able to implement a number of reforms in the taxation regime for capital markets, corporate and NBFC sectors.

The SECP proposals that were formulated in consultation with respective SROs and the industry stakeholders would help achieve the objectives to document the overall economy through corporatization and listing, stimulate capital formation through non-banking sector, stock market, etc., and to encourage long term savings through private pensions and insurance. Following amendments in the Income Tax Ordinance, 2001, were notified through the Finance Act 2011-12.

- Tax credit on investment in new shares and for life insurance premiums/takaful contributions paid: To promote investments in IPO's, the amount of eligible investment to avail tax credit on investment in IPO has been increased from existing Rs300,000 to Rs500,000, percentage of the person's taxable income for the year from 10% to 15% and the holding period has been extended up to 36 months. Further considering low insurance penetration (0.7% of the GDP) in Pakistan, tax credit for premium paid will encourage long term savings in insurance.
- Tax credit for enlistment of new companies: To encourage capital formation, tax credit of 15% for the year of enlistment has been allowed to companies coming for enlistment on stock exchanges. Existing incentive of 5% tax credit for the year of listing was considered insufficient.
- Removal of CVT on purchase of instruments of redeemable capital: Levy of Capital value Tax (CVT) on the purchase of any modaraba certificates, or any instrument of redeemable capital has been withdrawn in line with the levy withdrawn from purchase of shares.
- Tax credit for contribution in VPS: Existing restriction of Rs500,000 to avail tax credit for contribution in VPS has been removed to provide a level playing field to retirement schemes; VPS vis-à-vis tax free contribution permissible to other retirement schemes (superannuation fund: 20% of salary, gratuity fund: 8.33% of salary and provident fund: 10% of salary).
- Exempt VPS from minimum tax: To bring parity in minimum tax treatment of VPS vis-à-vis other investment options like mutual funds/CIS, NI(U)T and REITs, VPS has been exempted from the applicability of minimum tax.
- Exemption on withdrawal of 50% of accumulated balance under pension fund from income tax: Amendment has been made to the Income Tax Ordinance exempting withdrawal of 50% of accumulated balance under pension fund from income tax.

5.10. LEGISLATION AND GENERAL COUNSEL DEPARTMENT

The Legislation and General Counsel Department (LGCD) is part of the Strategy, Development, Legislation and External Relations Division. It was formed on June 7, 2011, with the restructuring of the Legal Department pursuant to the decision of the Commission on organizational restructuring. While the function of legislation and general counselling was retained in the LGCD, litigation and routine legal advisory functions were transferred to the operational departments.

The SECP constantly seeks to update its regulatory framework and fill any gaps or loopholes in the laws administered by it. The LGCD performs the important function of drafting and reviewing legislation administered by the SECP and also reviews draft laws, developed by the Federal Government and statutory bodies.

During the year, 67 key legislative instruments were drafted and reviewed. The following are the major statutes that were worked on during 2010-2011:

- Draft Corporate Rehabilitation Act
- Draft Futures Trading Act

- Draft Securities Act
- Draft Securities and Exchange Commission of Pakistan Act
- Draft Companies Amendment Act

5.10.1. Legislative assignments referred by the Federal Government

- Draft Gas Utility Companies Act, 2010
- Deposit Protection Fund Act
- Hajj, Umrah and Ziarat Act, 2010
- Review of Anti-Money Laundering Act, 2010
- Reviewed and commented eight bilateral investment treaties between Pakistan and other countries.

In addition to the above, legal advice was given on a number of wide-ranging and important issues like interpretation of provisions of the Securities and Exchange Commission of Pakistan Act, 1997, the Ordinance and other matters referred by a Commissioner or the Commission. All external advisory legal opinions are solicited by the LGCD, as and when required. It is also responsible to maintain a panel of lawyers for the ease of operational departments to assist them in appointing lawyers for litigation.

5.11. APPELLATE BENCH REGISTRY

The Appellate Bench of the SECP is statutorily mandated to hear appeals filed against orders passed either by a Commissioner or any other officer authorized by the Commission. The Appellate Bench comprises of two Commissioners. The Appellate Bench Registry of the SECP is headed by the Registrar Appellate Bench, who works under general superintendence of the Appellate Bench, while administratively, reports to Commissioner, Company Law Division. During the year 2010-2011, the Appellate Bench disposed of 40 appeals with a single bench available for hearing throughout this period.

5.12. HUMAN RESOURCES AND TRAINING DEPARTMENT

The key achievements of the Human Resources and Training Department (HR&TD) are as follows:

5.12.1. SECP—The way forward

A three-day off-site meeting titled 'SECP—The Way Forward' was organized to outline the SECP's three-year strategic objectives, to set annual targets for the year 2011-12 for every division/department, to outline values and competencies and to revisit the SECP's vision and mission statements. The theme for the way forward as agreed upon by the senior management was: accountability, teamwork, target-driven approach and to lead by example. The SECP values as agreed upon by the senior management at the conclusion of the off-site are: integrity, accountability, discipline, fairness and transparency, and commitment to excellence. These values are the foundation for every employee's day-to-day working.

5.12.2. Town hall meetings

In order to provide opportunity for open communication between the top management and the employees, two town hall meetings were held during the year, where the Chairman and Commissioner discussed the internal and external key achievements by the departments and the way forward for the SECP.

5.12.3. Training Programs

Eight employees attended six foreign trainings/seminars, whereas 146 employees attended 30 local trainings/seminars/workshops pertaining to their relevant areas. Besides, four in-house training sessions of two to three hour duration were conducted, which was attended by 42 employees.

5.12.4. Employees' well-being activities

During the preceding year various initiatives were undertaken for the employees' well-being. A feedback survey was conducted to obtain employees' input and suggestions. Annual medical tests were conducted for all the employees and free medical camps for the employees and their families were organized. The annual dinner and intra-SECP cricket tournament were arranged.

5.12.5. Salary Survey

A salary survey was conducted to ascertain the market trends in compensation and benefits and a firm was hired to conduct a salary survey keeping in view the market trends and inflation.

5.13. ADMINISTRATION DEPARTMENT

The renovation was initiated at CRO Lahore, Faisalabad and Peshawar and part renovation of the head office to meet requirements.

The Administration Department made arrangements for the SECP off-site meeting, annual dinners and various training sessions at leading hotels while remaining cost-efficient. It also facilitated in procurement activities, such as furniture, IT hardware, goods and services, etc.

5.14. INFORMATION SYSTEMS AND TECHNOLOGY DEPARTMENT

5.14.1. SECP's eServices project wins international award

IDG's Computerworld Honors Program on April 21, 2011 declared the SECP as a 2011 Laureate for its eServices Project. The annual award program honors visionary applications of information technology promoting positive social, economic and educational change. It was especially competitive this year because it received over 1,000 nominations.

Web-based eServices system is accessible from anywhere in the world via definite login ID with digital signature.

This award is a significant indicator of the SECP's commitment to providing healthy environment to the investors for the growth of Pakistani economy by implementing efficient automated systems to assure the transparency and accountability. eServices is a continuation of SECP's efforts to employ advanced technologies to ensure that it is effectively performing its regulatory, monitoring and enforcement functions.

5.14.2. eServices

The eServices facility has been operational since July 2008. Initially, only the Registration Department's processes were part of the eServices framework, but now various processes of the Specialized Companies and Insurance Division have also been made operational. Changes, enhancements and upgrades were made in eServices, to improve the performance, reliability and stability of the system, as well as reduce the recurring cost of licensing.

5.14.3. eServices for the corporate sector

i. The diary system for recording the manual submission of documents in the CROs was completely redesigned, reducing the time and workforce required for making diary entries by a factor of more than 50%.

ii. The appointment and change of company processes were revamped. Now separate forms for different type of company officers can be filed simultaneously.

iii. An inspection module, a reporting system, CEES and CRS modules and an online solution (for fresh and renewal of license of companies formed under Section 42) was introduced in the eServices web-based system.

iv. Processing time for name reservation requests was reduced by automatically assigning the processes to the concerned officers.

v. An important change in online eServices regarding new schedule of fee charged was incorporated.

vi. By integrating the diary, CRCS and eServices systems, up-to-date annual account filing information of companies can now be provided.

5.14.4. Specialized Companies

The enhancements were made to the Specialized Companies Return Submission (SCRS) and Specialized Companies Return Analysis System (SCRA) in terms of financial data gathering and reporting, to further improve the electronic monitoring and regulation activities of the NBFC sector.

5.14.5. Insurance

a. Insurance surveying companies' eServices module

Insurance surveying companies' eServices module consisting of four processes, i.e., issuance and renewal of licenses of authorized surveying officers (ASOs) and surveying companies was instituted. This system was created to maintain end-to-end connection with insurance companies, to facilitate online requests.

In order to educate the users of insurance surveyor industry about the eSInsurance Surveyors System, countrywide training sessions were conducted, hands on training was provided to 250 companies in Islamabad, Karachi and Lahore at the SECP offices.

5.14.6. ISO/IEC 2007:2005 Information Security Management System certification

The IS&TD was awarded the ISO/IEC 2007:2005 Information Security Management System certification, which is the top international standard for evaluating information security management systems. The certification was awarded upon successfully meeting the international standards required and ensuring that IS&TD has implemented suitable controls against their standards. IS&T assists to protect their confidentiality, integrity and availability. In addition, the IS&TD successfully set up operating, monitoring, reviewing, maintaining and improving the information security management system as well as raising the employees' security awareness level.

5.14.7. Market Surveillance System (MSS)

A state-of-the-art market monitoring and surveillance system called 'eSurveillance' has been further enhanced by deploying Alert Management and Case Management modules. These modules help generate various alerts after analyzing real time data, feeds from the three stock exchanges and monitors various types of market manipulations. Based on these alerts and other information, investigations may be initiated. A detailed implementation mechanism has been developed to detect market manipulation. Monitoring the stock market activities assures the market's fairness, efficiency and liquidity.

5.14.8. Court Cases Information System (CCIS)

The CCIS helps end users to maintain the records and all information related to different court cases filed by and against the SECP along with their status. It empowers the end user by easy and well formatted reporting on court cases.

5.14.9. Revamping of News Management System (eKnowledgebase)

An advanced and revamped News Management System eKnowledgebase has been instituted. Now all the SECP press releases, publications and other important news content can be found on eKnowledgebase. Using this system, SEC2Day intranet portal now automatically receives updated feeds.

5.14.10. Access Control System (ACS)

The ACS database was converted from MS SQL Server to Oracle. Data reconciliation was carried out to remove obsolete and redundant card entry. An excursive was carried out in conjunction with the Administration Department and the CNS team to improve the accuracy of the ACS for better record keeping.

5.14.11. Time-in / Time-out System (TITO)

The TITO has been instituted and integrated with the leave management system to record and generate various reports regarding the time-in and time-out of the employees using Access Control System's records.

5.14.12. Revamp of The SECP website

To disseminate information effectively and in a timely manner to its intended users, the SECP website has been revamped, by improving navigation and aesthetic features, separating web-portals for all divisions and departments, providing maximum online resources available (like forms/circulars/orders, etc.) with advanced search facility, adding online name search facility, and giving access to online résumé submission system for potential employees.

5.14.13. In-house training

- A number of In-house training sessions were organized in order to educate the users of the systems and to develop IT-related skills of the SECP employees. Some of the trainings are mentioned below:
- The training 'Implementation of Project Management Cycle using Microsoft Project' was designed for managers in the organization. It focused on how to plan and control complex multi-project scenarios using the features of Microsoft Project. It was attended by 17 participants from various departments at the head office in Islamabad.
- Multiple training sessions for scanning and archiving application were held in Islamabad, Lahore and Karachi in order to educate the users.
- Multiple sessions of Advanced Microsoft Excel 2007 were held in Karachi, Lahore and Islamabad (attended by more than 130 SECP officers) and covered topics like advanced formulas, charting, pivot tables, macros and advanced data analysis techniques.
- Microsoft Power Point 2007 training session was held at the Islamabad head office and was attended by 11 participants from various departments.
- Microsoft Word 2007 training session was held at the Islamabad head office and was attended by 43 participants from various departments.

5.14.14. Oracle Database Vault

The IS&T implemented Oracle Database Vault in September 2010 to safeguard its database. Oracle Database Vault helps organizations address regulatory mandates and increase the security of existing applications. Regulations such as Sarbanes-Oxley, Payment Card Industry (PCI) Data Security Standard (DSS), Health Insurance Portability and Accountability Act (HIPAA), Gramm-Leach-Bliley Act (GLBA) and similar global directives call for separation-of-duties and other preventive controls to ensure data integrity and data privacy. With Oracle Database Vault, organizations can pro-actively safeguard application data stored in the Oracle database from being accessed by privileged database users. Application data can be further protected using Oracle Database Vault's multi-factor policies that control access based on built-in factors such as time of day, IP address, application name, and authentication method, preventing unauthorized ad hoc access and application bypass.

5.14.15. Real Application Cluster (RAC):

The IS&TD has instituted Real Application Cluster (RAC) for attaining high availability of critical applications. This success has made the SECP one of the very few organizations internationally to have attained this level by installing a powerful, reliable, secure, and scalable database platform based on Oracle RAC technology. By virtue of the above-mentioned deployment the SECP has also become the first organization in the public sector of the country where Oracle Real Application Cluster has been introduced.

5.14.16. Certifications and achievements by IS&TD Officers:

The following certifications were achieved by some of the IS&T officers:

- Project Management Professional certification examination of Project Management Institute, Pennsylvania, US.
- VMWARE Certified Professional 410 (VCP-410).
- Microsoft Certified Technology Specialist (MCTS), Exchange Servers 2010 Configuration.
- Technology Specialist Microsoft.Net Framework 2.0 Web based Client Development certification.
- Microsoft Certified Technology Specialist (MCTS), Active Directory Configuring.
- Technology Specialist Microsoft.Net Framework-Application Development Foundation Certification.
- Microsoft Certified IT Professional (MCITP): Enterprise Messaging Administrator, Exchange 2010.

5.15. INTERNAL AUDIT DEPARTMENT

The Internal Audit Department (IAD) conducted internal audits of the SECP Employees Pension Fund Trust, the Employees Group Life Insurance Scheme, CROs in Multan, Faisalabad, Sukkur, Quetta and revenue assurance of SECP's Insurance Division.

In addition, the IAD undertook a number of investigative and consultative engagements. One of the investigations pertaining to procurement resulted in identifying areas of improvement in the procurement process and related internal controls.

During the year, the IAD also pre-audited 79 vouchers of final settlements as submitted by the Finance Department. The cases covered payments on account of pension, provident fund, gratuity and other retirement benefits. The IAD observations, as emanating from the scrutiny, were communicated to the respective departments for taking appropriate corrective actions.

In order to lend transparency to the procurement process, the IAD's representative regularly attends procurement tender opening process as an independent observer. Under this arrangement the IAD's representative attended 124 procurement tender opening meetings during the year and communicated its findings for appropriate compliances.

The IAD also maintained regular follow-up in respect of previously issued audit reports and audit memorandums. Other activities performed by IAD included:

- Internal audits of payroll processing, bonus distribution, rest and recreational leave calculation and conversion payment from OTC stream to NTC stream were conducted
- Quarterly performance reports highlighting summarized status of issued reports were submitted to the Commission
- Apart from the final settlement claims, the IAD also conducted a short enquiry of refund claim of a private limited company as referred to it by the finance department; disposal of old fixed assets at head office and the review of outsourcing contract.

Future Plans

CORPORATE SECTOR

6.1 CORPORATIZATION AND COMPLIANCE DEPARTMENT

6.1.1. Development of legal framework

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

Draft regulations for associations' not-for-profit will be finalized containing the regulatory framework and requirements for these associations. Specifically its main features includes the conditions for licensing, provisions of the code of corporate governance, fit and proper criteria for directors/ promoters, disclosure requirements for annual activities/ reports and annual audited accounts to the Commission, penal provisions, etc.

b. Draft Public Sector Companies (Corporate Governance) Regulations

The regulations will be finalized to extend the provisions of the Code of Corporate Governance to the public sector (state-owned) companies. The restructuring programme of SOEs announced by the GOP is likely to have policy implications for the draft regulations. Further, in view of certain legal privileges available to the state-owned companies under the law, the perceived enforcement issues consequent to the issuance of the regulations, and based on an exhaustive comparative evaluation of the SOE's governance regime globally; the legal status of the draft regulations is being reviewed to assess as to how it can effectively be enforced, so that the underlying objectives of introducing regulatory reforms for such companies/entities can be optimally achieved.

6.1.2. eServices Project

- Separate module will be developed to process applications seeking license under Section 42.
- The facility for electronic inspection of records will also be provided at the CROs in Peshawar, Multan, Faisalabad, Quetta and Sukkur, to facilitate the public in inspecting the records/documents submitted by the companies.
- Automatic assigning of documents will be implemented, which will increase efficiency, and result in quick delivery of services to the corporate sector.
- In order to further improve the internal working, and to enhance the scope of monitoring, new reports in eServices will be developed.
- In order to further enhance the services' delivery to the corporate sector, prospects for real-time challan verification and online payment system will be studied.

6.1.3. Facilitation measures

- Facilitation schemes of fast track registration shall be launched with urgent handling fees to promote corporatization and facilitate promoters who intend to get their company incorporated on an urgent basis. All formalities shall be completed on the same day.
- In order to raise public awareness on various statutory matters, revision of existing guides and publication of new guides is planned.
- Awareness seminars and workshops on eServices and corporate legal status will be organized in different cities.
- Regular meetings with corporate consultants and stakeholders will continue at the CROs to seek suggestions and to raise awareness on compliance and eServices.
- The media campaign shall be launched on annual returns filing, facilitation schemes and illegal business activities.
- Efforts will be continued to get stamp duty abolished in the Islamabad Capital Territory by pursuing the matter with the Ministry of Finance, the Ministry of Interior and the FBR.

- The idea of establishing helpline, bank booths at big CROs and eServices specialized call centres will be explored.
- The idea of establishing one-stop shop shall be explored in coordination with the Ministry of Finance. One stop shop shall entail provision of all the facilities under one roof by the concerned federal and provincial agencies from registering a company to formally setting up its business.
- The conditions for grant of licence to associations not for profit under Section 42 of the Ordinance shall be modified. Significantly, the new changes shall include allowing multiple objects.
- Cost audit guidelines for 5 new sectors shall be developed in coordination with ICMAP. General Order issued for 5 sectors shall also be replaced with special orders.

6.1.4. Promotion of corporate compliance

a. Activation drive

Notices under Section 439(3) and 439(5) of the Ordinance will be issued to defunct companies, after which these companies will be struck off from the register of companies. In respect of defaulting companies, adjudication orders will be passed for non-compliance of the provisions of the Ordinance.

b. Onsite inspections of companies

Onsite inspections of companies not carrying on business with prudent business practices shall be conducted as a regular feature.

6.2 ENFORCEMENT DEPARTMENT

6.2.1 Development of legal framework

a. Amendments to the Companies Ordinance, 1984

Amendments to the Companies Ordinance, 1984 shall be proposed through the Corporate Laws Review Commission (CLRC), to bring the issues in line with the present procedures and to remove the practical obscurities.

b. The Companies (Investment in Associated Companies and Associated Undertakings) Regulations, 2011

In terms of provisions of Section 208 of the Ordinance, the SECP has been authorized to formulate regulations governing investments made by companies in associated companies or associated undertakings, to specify such conditions and restrictions on the nature, period, amount of investment and terms and conditions attached to the investment by a company in its associated companies and associated undertakings, and other ancillary matters, applicable to companies as it deems fit.

Initial draft of the regulations was prepared and after approval of the Commission, was notified in the official gazette of Pakistan in February 2010 for the information of all likely to be affected thereby and for their suggestions/objections. A consultative process was initiated to take important stakeholders on board including leading business groups, stock exchanges, renowned professionals in the field of corporate law, professional accountancy bodies, companies and business associations. The draft has since been revised thoroughly in the light of feedback received from the stakeholders and the SECP also intends to hold roundtables before finalizing the draft regulations.

c. Amendments to the Listed Companies (Substantial Acquisition of Voting Shares and Controls) Regulations, 2008

An internal SECP committee formed to propose amendments in Listed Companies (Substantial Acquisition of Voting Shares and Controls) Regulations, 2008, has suggested certain amendments to the Takeover Regulations in order to remove certain anomalies between the Listed Companies (Substantial Acquisition of Voting Shares and Controls) Ordinance, 2002, and the regulations. The proposed amendments also include the introduction of chain acquisition concept and exemptions for banking companies, restructuring of which are approved by SBP, change of shareholding/control within the group/consortium/family and cases where minimum acceptance level cannot be achieved even if public offer is made. The amendments are expected to be finalized during the year 2011-2012.

d. Amendments to the Employee's Provident Fund (Investment in Listed Securities) Rules, 1996

The SECP received a number of complaints from the employees of listed companies regarding losses suffered by them on the investments made out of their provident fund in the listed securities by the trustees. After a detailed exercise, proposed amendments to the subject rules have been finalized. These amendments shall be referred to the Ministry of Law for amendments to the rules.

e. Cost Accounting Guidelines / Orders

In collaboration with the Institute of Cost and Management Accountants of Pakistan (ICMAP) and ICAP, the SECP intends to optimize the cost and management accounting framework in the country. In this regard, the SECP plans to promulgate the cost accounting orders for specific industries to facilitate maintenance of records and compliance. The SECP is developing special orders for maintenance of cost accounting records for each sector in line with Section 230 of the Ordinance. In the ensuing period, the SECP aims at issuing special orders for industries like fertilizer, thermal energy, petroleum refining, synthetic and rayon and automotives etc. The SECP has sought comments of the stakeholders on Fertilizer Industry (Cost Accounting Records) Order, 2011 and Thermal Energy (Cost Accounting Records) Order, 2011 relating to fertilizer and thermal energy sectors. The aforementioned draft orders are also placed on the official website of the SECP.

f. Cost Audit Quality Control Review

The SECP intends to devise a framework for evaluation of quality assurance standards and adherence to various statutory requirements by audit firms conducting audit of cost accounts. The said framework shall specify the formation of the Quality Assurance Board appointed by the SECP through nomination endorsed by the Councils of ICMAP and ICAP. The board shall make the policies and procedures required for carrying out the quality control review.

6.2.2 Investor Education

To increase public awareness various activities are envisaged during the year. These include seminars, workshops, road shows, investor guides, brochures, etc. The SECP has already published a series of guides/booklets to educate investors by making necessary information available to them. Guides/booklets planned to be published in the forthcoming years include: guidelines for SSEs, MSEs and ESEs; disclosure guidelines for financial statements of unlisted companies; FAQs on Section 208 of the Ordinance; and notices of general meetings.

6.2.3 Financial information on website of public listed companies

It is viewed that owing to technological progression it is imperative that optimum financial information is effortlessly available to shareholders through websites of companies. Hence there is a plan to publicize through media campaign (and other means) for introducing mandatory requirements for listed companies to maintain a website. Regulations for placement of annual audited accounts on websites of listed companies are being developed in consultation with other departments and based on industry feedback.

SECURITIES MARKET

6.3 POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

The SECP, has framed its three year Strategic Plan (2011-14) and Annual Targets for the year 2011-12 which include concrete goals and targets for sustainable development and growth of the Pakistani capital market. The roadmap for future envisaged in these plans/targets lays great emphasis on growth and development of a vibrant debt capital market, commodity and currency market, and focuses on measures for increasing market depth, liquidity and outreach, growth of the corporate sector, new listings and strengthening of the capital base of market intermediaries. Structural reforms at the stock exchanges in line with international practices are also at the forefront.

6.3.1 Demutualization

The Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2009 which was approved by the National Assembly on October 8, 2009 is awaiting approval from a joint session of the Parliament. During the financial year under review, certain pre-demutualization deliverables were achieved. Apart from attracting capital from international strategic partners, a demutualized/corporatized stock exchange would result in improvement in the governance structure, segregation of regulatory functions from commercial functions and separation of trading rights from ownership rights. The proposed demutualization and corporatization of the Pakistani stock exchanges would bring these entities at par with other international jurisdictions. Keeping in view the importance of this much-needed structural reform for the Pakistani capital market, it is important that the said Act is promulgated on a priority basis.

6.3.2 Development of the debt capital market

In relation to the debt capital market development, the notable projects in pipeline include cross listing of term finance certificates (TFCs) at the stock exchanges; and reporting of unlisted TFCs and their settlement through NCCPL. Also, the PRDD is in the process of exploring the possibility of establishing a neutral bond pricing agency.

6.3.3 Development of the commodity and currency market

With regards to the commodity market development, it is essential that the product portfolio of the commodity exchange is diversified to meet the hedging requirements of various investor segments. Efforts are underway to achieve the desired diversification for enhanced activity in the commodities market through introduction of new futures contracts in various commodities in the agriculture and precious metal segments and currencies in consultation with the relevant stakeholders. Introduction of the concept of market makers for the commodity market is also underway.

6.3.4 Introduction of new products / systems and review of existing products / systems

Regarding new product development, the future PRDD agenda includes continuous review revamping of all existing products in light of market need and international best practices, and introduction of new products like the exchange traded funds, derivatives such as warrants and index and stock options, sector indices. Further, the possibility of cross listing and trading of international indices is also being explored.

6.4 MARKET SURVEILLANCE AND CAPITAL ISSUE DEPARTMENT

6.4.1 Code of Conduct for Trading / Investment Practices

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

6.4.2 Development/review of the regulatory framework

The SECP always strives for the development of a vibrant capital market. The following developmental activities are being/proposed to be undertaken for the forthcoming fiscal year 2011-12 for the development of the capital market especially primary market:

(i) Review of the existing rules / regulations / guidelines

a. Review of the Companies (Asset Backed Securitization) Rules, 1999

b. Review of the Credit Rating Companies Rules, 1995

c. Review of the Securities and Exchange Rules, 1971

d. Review of the Guidelines for Issue of Commercial Papers

e. Review of the Guidelines for Issue of Term Finance Certificates

f. Review of the Listing Regulations of the stock exchanges with the view to make the listing process easy and efficient

g. Review of the existing Companies (Buy-back of Shares) Rules, 1999 and steps for replacement of the Rules with the Companies (Buy-Back of Shares) Regulations

(ii) Development of new rules / regulations / guidelines

a) The Underwriters (Registration and Regulations) Rules

b) The Regulations for the Issue of Call Warrants

c) Regulations for the Issue of Sukuk Certificates

d) The Companies Issue of Redeemable, Perpetual, Convertible and Exchangeable Debt Securities Regulations

e) The Share Registrars and Transfer Agents Regulations

f) The Debt Securities Trustee Regulations

g) The Advisor, Consultants and Lead Manager to an Issue Regulations

6.4.3 Compliance of Regulatory Framework

- On-site inspection of the brokerage houses and the stock exchanges will be carried out.
- Off-site reports received from stock exchanges will be reviewed, analyzed and enforcement action, if any, will be taken.
- Review and analysis of System Audit Reports, CDC Inspection Reports and reports on internet trading.
- To finalize policy and procedures relating to UIN audit of brokerage houses; review and analyze auditor's reports thereon.
- Enquiry, if any, will be carried out on a need basis.

SPECIALIZED COMPANIES

6.5 POLICY, REGULATION AND DEVELOPMENT DEPARTMENT

6.5.1 Mutual Funds

a. Investor awareness

One of the key areas which can unleash the immense potential the mutual fund industry holds is reaching out to untapped investor base. The SECP believes that there is a broad range of funds available to efficiently cater to the needs of a diverse range of investors. However, this untapped potential can be realized through making concerted efforts for creating awareness amongst the public about mutual funds and the benefits they offer. In this regard, the SECP in collaboration with MUFAP and other industry participants intends to conduct investor awareness campaigns including seminars, road shows, workshops, etc.

b. Product innovation

One of the key elements for consistent growth of the mutual fund industry is to understand on an ongoing basis the investment needs of the public and offer products that can efficiently meet those needs. Owing to the changing macroeconomic environment, the investment needs of the public have become more dynamic which warrant launch of innovative products. In order to promote the industry, the SECP is receptive to innovative ideas and products that offer diverse solutions to satisfy changing needs of participants in the industry. For this purpose, the SECP will continue to encourage specialized funds such as Exchange-Traded Funds, Commodity Funds, and Sector Specific Funds.

c. Facilitation of the launch of new schemes

In collaboration with MUFAP, the SECP is working for standardizing the contents of the constitutive documents of a collective investment scheme (CIS). It is envisaged that the standardized documents will serve to enhance an investor's comprehension of constitutive documents and lead to well-informed decisions. This will expedite the approval process, thereby, leading to swift launch of new schemes.

d. Enhanced collaboration with MUFAP

The SECP considers MUFAP as a key stakeholder in the development of the mutual fund industry. As a result, the SECP intends to hold regular dialogues with MUFAP to resolve issues hampering the growth of the industry and focus as well as move forward on areas that can catalyze growth of mutual funds.

e. Improved market infrastructure

In collaboration with MUFAP, the SECP, shall actively work to strengthen the distribution channels for development of the industry. The SECP plans to resolve the key issue of fair valuation of debt securities in cooperation with market participants by encouraging better trading platforms whilst also considering the possibility of setting up an independent pricing agency, which can serve to increase transparency and liquidity and potentially revitalize the primary and secondary debt markets. Furthermore, concerted effort shall be made towards strengthening the role of rating agencies. The SECP also intends to have standardized performance presentation standards in place for which the GIPS of the CFA Institute shall be considered for implementation across the industry.

6.5.2 Investment banks and leasing companies

The SECP, in consultation with various participants of financial system, will look into the possibility of introducing a new regulatory regime to facilitate the revival of the NBFC sector.

6.5.3 Modarabas

The SECP intends to focus on the following basic reforms in the regulatory framework governing modarabas that are expected to positively influence certificate holders' value and enhance reputation of the modaraba sector as a viable component of the financial sector of the country, through the following:

- In order to strengthen the regulatory framework and to bring about operational flexibility and consistency between the financial institutions under the NBFC regime and Modarabas, existing provisions of the Modaraba Ordinance, Rules and Prudential Regulations for Modarabas are proposed to be reviewed comprehensively in consultation with all the stakeholders.
- In order to introduce a mechanism which will strengthen the Shariah compliance by the Modarabas and to ensure that the systems, procedures & policies and agreements adopted by Modarabas and business transactions of Modarabas are in line with the Shariah principles, the possibility to issue Shariah Compliance and Shariah Audit Mechanism for modarabas would be explored.
- The draft of Islamic Financial Accounting Standards (IFAS) regarding profit-and-loss sharing on deposits, submitted by the ICAP will be shared with the stakeholders and the consultation process would be completed before its implementation for the modaraba sector.
- The SECP aims to encourage the introduction of new fundraising and investment products for the modaraba sector. In order to facilitate resource mobilization, it plans to introduce at least one new fundraising product.
- The SECP intends to hold regular dialogue with the NBFI & Modaraba Association of Pakistan and other stakeholders to understand and resolve industry related issues and to work out a viable, practicable and time-bound plan for growth of the modaraba sector.

6.5.4 Voluntary pension system (VPS)

a. Amendments to the regulatory framework

In order to keep abreast of international developments, synchronize the legal framework with related laws, address operational needs and improve reporting practices, amendments to the VPS Rules have become desirable. Draft amendments will be submitted to the Federal Government for approval before notifying the same for inviting public opinion. Any comments or proposals on the draft will be considered for appropriate adjustments in the VPS Rules. After this consultative exercise, which is aimed at improving the quality of law by eliciting public opinion, the draft amendments will be submitted to the Federal Government for final approval and notification.

b. Awareness programs

The SECP will endeavor to create awareness in the public about VPS. This will include interactions with and participation in seminars and workshops organized by financial services industry and the SECP. A plan for such engagements is being finalized.

c. Publication of performance comparison

The SECP will endeavor to articulate regulatory framework for making available accurate and speedy information to the existing and prospective investors. In the area of VPS, it is also desired that the fund managers present the financial results promptly in a concise and transparent form linked to a certain benchmark. The SECP will work to evolve criteria for measuring and reporting performance of pension funds.

d. Removal of tax disparities

In order to create a favourable investment environment and remove inequalities in tax treatment between pension funds established under the VPS Rules and those set up by employers under labor law or in pursuance of contract of employment, the SECP will maintain a close coordination with the FBR.

6.5.5 REITs

To promote REITs, the SECP will consider revising the existing regulatory framework in consultation with market participants. The SECP would like to benefit from the views and expertise of the private sector to imbed and promote investment in REITs. The SECP is contemplating bringing about changes to the regulatory structure by reducing the minimum fund size, effective utilization of customer advances and revising the role and responsibility of REIT trustees. Furthermore, for taxation on REITs, the SECP will make a concerted effort to bring the banking sector on a par with the corporate sector.

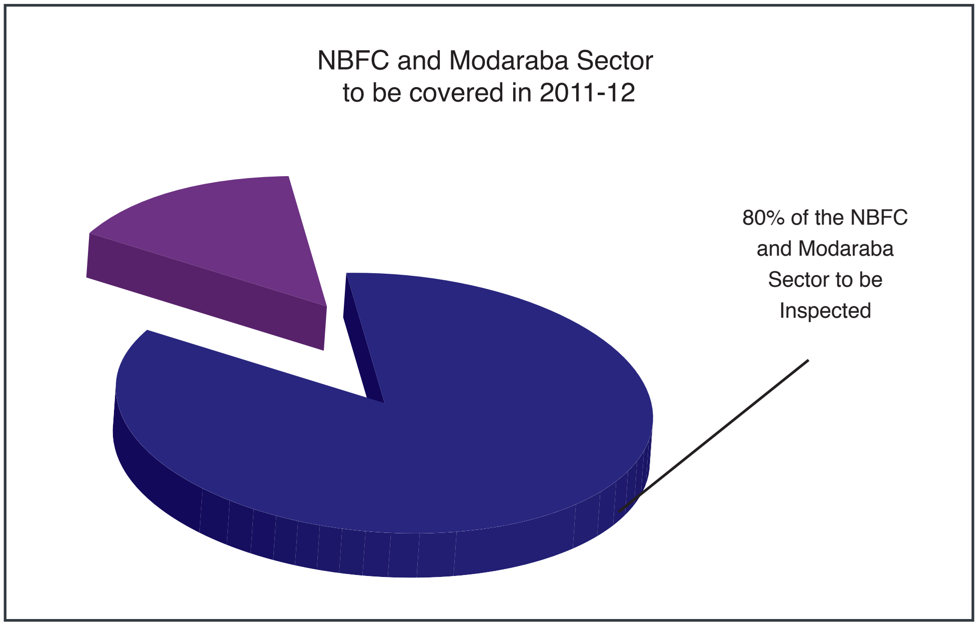
6.6 SUPERVISION DEPARTMENT

6.6.1 Off-site surveillance

- Conduct off-site reviews of 100% of the NBFCs (including modarabas) each quarter.
- Prepare sector reports covering the entire NBFC sector (including modarabas) on a monthly basis.
- Improve the current sector reports in order to make them more comprehensive and meaningful.

6.6.2 On-site inspections

It has been planned to inspect seventeen AMCs/IAs, four investment banks, two leasing companies and nine modarabas, covering approximately 80% of the assets of the NBFC and modaraba sectors, thus increasing the inspection coverage by 11%, i.e., from 69% achieved in 2010-11 to 80% to be achieved in 2011-12:



6.6.3 Enforcement

- To review all off-site reports and onsite inspection reports prepared by the offsite surveillance and onsite inspection teams and take appropriate enforcement actions through issuing enforcement letter(s), compliance/warning letter(s), direction(s), show cause notice(s), conduct hearing(s) and issue order(s).
- The development of the Enforcement Manual has been planned for the year 2011-12.

INSURANCE

The future looks very positive for the insurance market in Pakistan. Although there are many challenges ahead, the low penetration in the non-life sector and development of strong supervisory system are factors likely to lead to significant premium growth in the years ahead.

a. Review and amendments to Takaful Rules, 2005

The takaful industry in Pakistan is seen to be coming out of its infancy and moving towards a mature stage where the conventional market participants are interested to expand in the domain of shariah compliant insurance. Also, attributed to the varying interpretations of shariah and critical need of standardization of terms and accounts, the Takaful Rules, 2005 are being reviewed and modified with the objective of removing the anomalies and addressing the areas which were silent in the existing Takaful Rules 2005.

b. Accounting regulations for life and non-life insurers

To streamline and standardize the accounting formats of the life and non-life insurers and making these further consistent with the international best practices, the accounting regulations are being formulated. In these regulations the anomalies in the existing formats would be removed whereas further disclosures and information would be required to bring more transparency and credibility to this segment while making it consistent with IAS and IFRS. Further, areas where the law is currently silent will also be addressed. Various stakeholders including industry representatives and accounting bodies are also being consulted during the formulation process. These regulations will soon be notified for public comments.

c. Review and amendments to minimum solvency requirements

The Insurance Division has proposed amendments to the Securities and Exchange Commission (Insurance) Rules, 2002 to revise the solvency requirements and frame guidelines on the investments of insurance companies, while approving certain amendments to the Rules with regard to the revision of the solvency requirements of the insurance companies. These amendments to the Rules have also been discussed with the Insurance Association of Pakistan and the Pakistan Society of Actuaries. The amendments are needed to review the solvency requirements and to frame guidelines pertaining to the investments of the insurance companies; guidelines on the investment of funds; valuation basis for assets and liabilities; allocation of investments and criteria for admissibility of assets and solvency along with reporting on solvency by insurers, as part of the regulatory accounting returns. The proposed amendments after the approval of the Policy Board will be notified for public comments.

d. Unit-linked/product regulation

Due to the complex benefit structure and investment risk in unit-linked policies borne by the policyholders, a committee comprising members from the SECP, Institute of Chartered Accountants of Pakistan and Pakistan Society of Actuaries has been formed to draft new regulations. These regulations aim to achieve more transparency in disclosures made by the insurance companies to policyholders regarding unit pricing and fund management. These regulations, which are in the advance stage of being formulated, will also lead to standardization of the pricing models used by all life insurers.

e. Sound and prudent management regulation

The SECP observed that a large number of insurance companies were being headed by individuals who had neither qualifications nor experience of ‘direct relevance’ to the conduct of insurance operations, as laid down in the Insurance Ordinance, 2000. Consequently, companies were not being managed in a sound and prudent manner. It is vital to point out that in order to prepare the insurance sector to face the impact of globalization and shrinking margins and also to avoid maladministration, insurance companies must be run by competent executives with adequate know-how of insurance business. Keeping in view the importance and urgency of the matter, the SECP developed Sound and Prudent Management Regulations, 2011 for the insurance sector in line with the Insurance Ordinance, 2000, for the management of insurance companies, which will soon be notified for public comments and after approval from the policy board will be notified. These Regulations are essentially the ‘Fit and Proper’ guidelines as practiced and implemented by regulators, globally, in order to promote good corporate governance and to encourage the management to play an effective role for the capacity building.

f. Amendments to Insurance Ordinance, 2000

It has been observed that the Insurance Ordinance, 2000, has introduced a number of laudable reforms with a significant shift from the previous Insurance Act, 1938; however it is felt that more areas such as modern risk-based supervisory regime, issues related to new distributions channels, solvency, etc., need to be addressed at length. It is also required that the SECP is delegated with necessary punitive and civil prosecution powers, in line with the IAIS Principles and international best practices. It has been planned that the Ordinance be reviewed at length and in details to address the concerns of stakeholders and make it more adaptable.

g. Assessment and implementation of IAIS principles, standards and guidance

Since 2004, the SECP has been a member of the International Association of Insurance Supervisors (IAIS). The IAIS is committed to developing standards that can be used by insurance supervision throughout the world. The IAIS principles, standards and guidance papers represent best practices, or targets, for supervisors to work towards and can be implemented in a flexible manner depending on the circumstances within each jurisdiction. It has been observed that there is a clear gap between the current insurance laws in Pakistan and IAIS Principles and Standards, and hence it has been planned to assess and implement the IAIS Principles and Standards across the industry.

h. Terrorism insurance pool

In light of these facts, it must be concluded that loss events beyond a certain scale not only affect society and the economy but also surpass the risk capacity of the insurance industry. Effective solutions involve a risk partnership among the insured, insurers, reinsurers, capital markets and governments. In such risk partnerships, governments should primarily act as facilitators in order to protect the financial resilience of the insurance industry and as regulators, they ensure that adequate and coherent legislative frameworks are in place. Most countries in the world have developed Terrorism Insurance Pools as a result of public-private partnership. The SECP with the support of the Asian Development Bank has concluded a feasibility report for the creation of a Terrorism Insurance Pool in Pakistan, in concert with the insurance industry whereby the industry has shown an overwhelming need for the creation of the pool. The pool is expected to be established by the end of current year.

i. Microinsurance

Microinsurance is the specialized form of insurance for low premium and low coverage limits designed to serve low-income citizens and businesses not served by typical social or commercial insurance schemes. While microinsurance is already being done in Pakistan, there is a strong need to draw a comprehensive regulatory framework for microinsurance as well as encourage the insurance companies to manage this product line actively. Also there is a clear need for modeling of microinsurance exposure and pricing of risk, policy distribution channels and underwriting guidelines to manage this class of business; and in order to increase the microinsurance penetration, a strong public awareness campaign and training programmes for the stakeholders. The SECP has composed a task force which deliberated on the needs and proposed regulatory framework for microinsurance. The draft regulations prepared were shared with the stakeholders during consultative group meeting and the business policy roundtable held earlier this year; and the final regulatory framework is expected to be notified before the end of current financial year.

j. Crop insurance

While the crop insurance has recently taken off in Pakistan, the SECP is working to provide comprehensive guidelines to the insurance industry to enable them to develop this product and cater to the huge demand in the market. A few pilot projects have been designed with relevant stakeholders and will be executed during the current year, which are expected to provide effective learning outcomes in developing guidelines for the market to pursue this product aggressively.

k. Health insurance

Out of a total population of 180 million people reportedly only one million lives are covered by commercial health insurers. Due to poorly developed retail health insurance products and distribution mechanisms the larger retail market remained ignored with no access to health insurance. Some of the reasons for low health insurance penetration include meager investment of the health insurance industry towards developing people, processes and technology that would otherwise lead to industry growth and profitability.

For this purpose, the Insurance Division has been encouraging insurers to run a pilot project on health insurance in partnership with the distributors like banks and other financial institutions, with emphasis on the need of creating innovative business models and leveraging the use of technology. This will not only help all stakeholders to share experiences with each other but will also set the tone for the future development of health insurance services for the masses.

STRATEGY, DEVELOPMENT, LEGISLATION AND EXTERNAL RELATIONS

6.7 STRATEGY, DEVELOPMENT AND EXTERNAL RELATIONS DEPARTMENT

6.7.1 Strategic Analysis

To review the organizational structure of the SECP in light of international research and information gathered and suggest changes with the objective of increasing the SECP's efficiency and effectiveness.

6.7.2 Roadmaps for development of various sectors in Pakistan

Prepare a three-year roadmap in light of international developments, regulatory and market practices and stakeholder consultation for growth, development and outreach of the sectors under the SECP's purview, i.e., debt market, derivatives market, commodities and currency exchange; mutual funds, non-banking financial sector and modarabas; insurance and equity market.

6.7.3 Investor Education

Plan a comprehensive investor education and awareness program for the SECP. The key components of the program would include:

- Educational seminars
- Dedicated website for investor education
- Investor guides and relevant study material in English and Urdu for enhanced outreach
- Promotion of financial education through the use of traditional and social media
- Creating linkages with other investor education providers
- Effective investor complaints and grievance handling procedures

6.7.4 Corporate Social Responsibility

The SECP envisages the creation of a Corporate Social Responsibility Strategy to enhance its role within the community and undertake new CSR initiatives.

6.7.5 Memoranda of Understanding (MoU)

To further improve bilateral cooperation, the SECP will strive to sign MoUs with counterpart regulatory bodies of Turkey, Jordan, Oman and Morocco, internationally while with the FBR and the Competition Commission of Pakistan (CCP) at national level. Joint working level committees will also be formed with jurisdictions where MoUs have previously been signed.

Furthermore, the SECP will also endeavour to become a signatory to the International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding (MMoU).

6.7.6 Assessment of International Regulatory Principles

The SECP will initiate assessment of international regulatory standards for insurance and pension sector established by the International Association of Insurance Supervisors and International Organization of Pension Supervisors respectively and will undertake assessment of revised IOSCO principles of securities regulation.

6.7.7 New Projects with Donor Agencies

New assistance/grant projects with the World Bank and ADB will be negotiated to execute consultancies, training of the officers of the SECP and development of strategic plans for different sectors regulated by the SECP.

6.7.8 Strengthening of AML Regime

Regulatory requirements will be established to strengthen the AML/CFT regime in the capital markets and insurance industry in light of the recommendations of the APG Mutual Evaluation Assessment. Steps will be taken for capacity building of the regulatees to ensure the adequacy of internal AML/CFT compliance programs. Awareness generation workshops will also be conducted in collaboration with the FMU.

6.7.9 Training workshops for journalists

In order to promote accurate reporting and to increase investor awareness, the SECP will organize training workshops at least on a quarterly basis in Islamabad, Lahore and Karachi.

6.8 LEGISLATION AND GENERAL COUNSEL DEPARTMENT

The LGCD plans to develop an enforcement manual for all the SECP operational departments, which will serve as the standard operating procedures and guidelines to be adopted for enforcement actions. The LGCD also intends to work on the subsidiary legislation regime under the SECP Act 1997.

6.9 APPELLATE BENCH REGISTRY

In order to dispose of the pending appeals, the Appellate Bench Registry has planned to fix appeals on weekly basis. With the appointment of the Commissioners by the federal government and availability of three Appellate Benches, the issue of pendency of appeals shall be effectively resolved.

The Appellate Bench since the start of the year 2011 has held more than 65 hearings. The early hearing of appeals has been a demand of the regulatees and it is expected that by the end of the financial year 2011-2012, the Appellate Bench shall do away with the backlog.

The Appellate Bench Registry in collaboration with IS&T Department is in the process of developing a database which shall provide complete information on the status of pending appeals and appeals disposed of by the Appellate Bench.

6.10 HUMAN RESOURCE AND TRAINING DEPARTMENT

The future plans of HR&TD are as follows:

1. Revamping of entire HR policies and procedures.
2. Implementation of new performance management system and training of departmental heads on the same.
3. Training on the 7 Habits of Highly Effective People Signature Program for all management cadre employees.
4. Preparation of an annual training plan and implementation of the same across the board.

5. The completion of job profiling and job descriptions for all the employees.
6. Improvement in the HR functions through implementation of a comprehensive software.

6.11 ADMINISTRATION DEPARTMENT

6.11.1 Improvement in office environment

In order to improve the overall office environment and facilitate employees several measures will be taken. The head office will soon have an ATM, a state-of-the-art training centre, an improved day care facility, a mini-gym, an upgraded Information Resource Centre, a cafeteria and a service desk. The department will also introduce a visitors' management software (VMS) for proper record keeping of all visitors and streamlining the procedure in line with the safety parameters of the building. The security services and office parking facilities for all employees will also be upgraded.

Some of the other plans include:

- A feasibility study to establish SECP-owned offices in Islamabad, Lahore and Karachi.
- An administration manual, asset disposal policy, store policy and procurement policy in line with best procurement practices.
- Ensure establishment of Disaster Recovery Centre (DRC) at CRO Lahore.
- Establish a secure and proper record room to meet the overall SECP requirements.
- Procure software for the smooth and efficient working of the Administration Department.

6.12 INFORMATION SYSTEMS AND TECHNOLOGY DEPARTMENT

6.12.1 Establishing a Service Desk

The SECP is setting up a service desk to handle complaints and enquiries related to laws and policies, registration of different types of companies, licensing requirements related to grant and renewal, facilitation and protection of investors, creditors, depositors, policyholders, and consumers, enforcement, monitoring, and compliance, and front end helpdesk for the eServices project. The call center number will be accessible throughout Pakistan on weekdays and during weekends offline query and message services will be available.

6.12.2 Enterprise Resource Planning (ERP)

Most of the SECP's functional business processes are being automated using high-end solutions through the eServices and other projects. In view of this the SECP has in principle decided to procure and implement an ERP solution for it's support functions such as finance, administration and human resource management system, so that these systems can than be integrated with the each other and with the rest of the high-end solutions.

6.12.3 Virtualization on VMware

In early 2008, the SECP found itself running into physical constraints in the data center. There were classic signs of server sprawl: disappearing footprint, rising power and cooling costs, increasing networking requirements and hardware expenditure that rose out of step with productivity gains.

It was decided to introduce virtualization in data center and started a test run in 2009. After completing proof of concepts (POCs) it was deployed in production environment. After Installing VMware technology hardware cost has decreased, data center operations have been centralized, change control processes have been improved and disaster recovery (DR) capabilities have been introduced for primary business systems.

The next phase of the project entails further server consolidation, utilizing VMware's capacity planning tools to determine the best candidates. Enhance its utilization of VMotion to reduce the impact of data loads on user experience. The SECP is targeting a further reduction in the number of physical servers by the end of 2012 and additional cuts to downtime.

6.12.4 Unified communication

Unified communications (UC) is the integration of real-time communication services such as instant messaging (chat), presence information, telephony (including IP telephony), video conferencing, data sharing (including web connected electronic whiteboards), call control and speech recognition with non-real-time communication services such as unified messaging (integrated voicemail, e-mail, SMS and fax).

The project's goal is to improve productivity, creativity, and collaboration by implementing advanced communication tools in one platform on the desktop. It provides a platform to converge telephony, email, instant messaging, enhanced presence, audio and video conferencing and mobility.

After the completion of this project there will be an integrated system of real-time communication services, such as instant messaging, presence information, telephony (PABX and GSM), video conferencing, data sharing, voice mail, SMS and fax.

6.12.5 Comprehensive back-up solution

The primary purpose of backup is to recover data as a reaction to data loss. It also helps to recover data from a historical period of time within the constraints of user-defined data retention policy. Since a backup system contains at least one copy of all data worth saving, the data storage requirements are considerable. Currently at the head office a very large amount of data is backed up and kept onsite and offsite, i.e., a bank locker. Due to the unavailability of a comprehensive backup software solution this is being done on an ad hoc basis.

Multiple software and hardware solutions were studied and few were tested for POC at the head office. Finally, it was learnt that comprehensive enterprise data backup software with allied hardware, i.e., LTO-5 can meet our needs of data backup management. Hence a separate layer of protection will be provided to the SECP data with the implementation of this solution.

6.12.6 Data warehouse

The SECP has large quantities of data that have been collected over a period of years and there is a lot of value in this historical data. It has been decided to build data warehouses to make the data accessible in a meaningful and timely manner.

The data warehouse would generate reports dynamically and help in better decision making based on the extensive data analysis and mining capabilities. The information generated can also be helpful in regulations and policy decisions. The objective is to empower users in various divisions at the SECP to work on the data warehouse from their operational requirements point of view for generating various reports having policy implications.

6.12.7 Master data management

Master data management will be the main focus in the next year. The objective is to create a consolidated repository of all data sources in the organization. This repository will lead to knowledge management and enterprise data warehouse.

6.12.8 Databases migration to new SAN

Due to the growing demand for storage, a new storage area network (SAN) solution will be deployed in the SECP. Oracle databases will be migrated to this new SAN.

6.12.9 Oracle infrastructure upgrade to 11g

In order to keep our infrastructure up to date with the latest technological changes, all Oracle 10g databases will be migrated to Oracle 11g Release 2.

6.12.10 Establishing Business Continuity and Disaster Recovery Centre

To counteract interruptions to business activities and to protect critical business processes from the effects of major failures of information systems or disasters and to ensure their timely resumption, we are establishing the Business Continuity and Disaster Recovery Centre (DRC) at the Lahore CRO. This project is in its implementation phase. Oracle database disaster recovery solution will also be implemented as part of the SECP's overall DRC plan.

6.12.11 Metro site at the Islamabad CRO

In a disaster situation, delay in up-time due to bandwidth limitations and overheads due to direct replications may cause the loss of data for 30 seconds. This situation may be addressed by real-time replication by establishing a metro site at the Islamabad CRO. The data will be replicated to DRC at Lahore from this metro site. The overheads for the long distance replications will be taken care of by the metro site and we will be able to boost the performance by ensuring the zero data lost.

6.12.12 QMS ISO9001:2008 and ISMS ISO27001:2005 surveillance audits

Third party annual surveillance audit for Quality Management System (QMS) and Information Security Management System (ISMS) of the IS&TD will be conducted to make sure its systems are in compliance with international standards.

6.12.13 Capacity building and training needs

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

IT orientation sessions for all employees of the SECP have been planned. To ensure that staff strength is appropriate in accordance with its workload, the trainings for IT professionals in the technology relevant to the SECP's needs has also been planned.

6.13 INTERNAL AUDIT DEPARTMENT

The activities planned for the year ahead are governed under an annual audit plan, which is approved by the Commission. Audits are selected from the total audit universe under the laid down risk assessment criteria which takes into consideration factors like, prior audit findings, perceived sensitivity, the control environment, confidence in operating management and changes in people or systems, etc.

Calendar of Events

Calendar of Events

July 2010
The SECP officers visited Multan chamber of Commerce and Industry to promote corporatization and eServices
The SECP officers met corporate consultants at the CROs in Lahore and Faisalabad regarding launching of CRS and CEES
The SECP officers met corporate consultants at the Karachi CRO to seek suggestions to improve the functioning of CRO
Thirty-nine officers attended the program 'Legal Training For Non Legal Executives' at Marriot Hotel
Media and Publications Wing organized an in-house training workshop on writing and editing skills
Three officers attended the Executive Training Program on Law held at the Marriot, Islamabad
The SECP officials had meeting with the ISE Board of Directors and Management

August 2010
The SECP officers met corporate consultants at the Peshawar CRO
The SECP officers met corporate consultants at the CROs in Islamabad and Faisalabad on the issues of CRS and CEES
The SECP officers met corporate consultants at the Multan CRO to improve filing compliance rate
The SECP officers met members of Balochistan Tax Bar Association to obtain their feedback on the CEES and CRS and services provided by the SECP
A team including high member officials from SCO Ministry of Defense came to study the IT division processes and Infrastructure, a detailed guideline has been provided for the planning and implementation of modern IT related end-to-end solutions

September 2010
The SECP officers met company secretaries at the Faisalabad CRO on statutory compliance to encourage them to file statutory returns and discuss issues etc.
Awareness programme by The SECP for IBA students on eServices at IBA City Campus, Karachi
Awareness programme by The SECP for IBA students on implications of the Company Law at IBA City Campus, Karachi
Representation in Ladies Fund Entrepreneur Conference in Karachi organized by Dawood Group to raise awareness about the functions of The SECP and to encourage corporatization
A two-day seminar was organized for awareness of prospective investors at IBA Karachi
The SECP meeting with the CDC Management

October 2010
Seminar in collaboration with ICAP in Faisalabad on eServices regime, corporatization and post-incorporation statutory requirements
The SECP officers visited consultants of Multan CRO for better coordination
The SECP officers visited Sukkur Chamber of Commerce and Industry to promote corporatization and eServices
The SECP officers met consultants of Sukkur and Khairpur at the Sukkur CRO for better co-ordination and image enhancement of the SECP

October 2010
The SECP officers met corporate consultants at the Peshawar CRO
Workshop by the SECP on filing of statement/statutory returns under the Companies Ordinance, 1984, in collaboration with Lahore Tax Bar Association
Six officers participated in a workshop 'Enforcing Good Corporate Governance Practices and Procedures' arranged by International Finance Corporation (IFC), Islamabad
Delegates including IT leadership with senior business management from Benazir Income Support Fund visited IS&T Department to understand model IT systems and infrastructure. A comprehensive support has been provided to them in developing the IT strategies planning and shared our infrastructure and helped them in executing these systems
The IOSCO publishes SECP's report on regulation of conflicts of interest facing market intermediaries'
The SECP places the revised Code of Corporate Governance on its website for stakeholder comments
One officer attended Malaysia's 11th Annual Emerging Markets Program in Kuala Lumpur, Malaysia

November 2010
The SECP officers met the company secretaries/representatives of the listed companies at the Lahore CRO
Meeting with the representatives of Pakistan Tax Bar Association at the SECP head office in Islamabad to explore the concept of intermediaries
The SECP officers met corporate consultants at the Faisalabad CRO on the issues of CRS and CEES
First meeting of the task force on microinsurance development
Two officers attended Tranchulas Certified Ethical Hacker/Penetration Tester Course. They received Penetration Tester Accreditation from Tranchulas
A training attended by three officers on 'Preparation of Credit Proposals, documentation and Procedures' at NIBAF, Islamabad
One officer attended Training on "11thEmerging Markets Program 2010" organized by Securities Industry Development Corporation (SIDC) in Kuala Lumpur, Malaysia
Three officers attended the AUSTRAC workshop on 'Establishing and Implementing a Risk-Based Approach' in Amman, Jordan
SECP meeting with the LSE Management

December 2010
Ceremony at the head office in Islamabad on obtaining ISO 9001:2008 for the CROs in Karachi, Lahore and Islamabad
The SECP officers met corporate consultants at CRO Multan for better co-ordination and image enhancement of SECP
The SECP officers met corporate consultants at the Faisalabad CRO on the issues of CRS and CEES
The SECP officers met corporate consultants at the Lahore CRO regarding benefits of amnesty schemes launched by the SECP
Seminar for L'ECOLE, a Karachi-based educational institution, on corporatization of business entities
Sub-group meeting on the development of microinsurance pilot project
Working group meeting on the development of microinsurance pilot project

December 2010
The SECP and the China Securities Regulatory Commission (CSRC) sign an MoU for exchange of information and technical assistance
SECP meeting with the outgoing Member and Non-Member Directors of the KSE Board

January 2011
The SECP officers met corporate consultants and company secretaries at the Faisalabad CRO to address the observations on already filed statutory returns
Briefing on registration procedures of companies for senior USAID advisor and economist at the SECP head office in Islamabad
Seminar in collaboration with "All Pakistan Security Agencies Association" (APSAA) in Karachi on corporatization and post-incorporation requirements
Presentation on eServices project and post-incorporation requirements at a seminar organized in collaboration with Management Association of Pakistan (MAP), Karachi
The SECP officers visited the NIFT Multan office to compare notes on digital signature-related problems
Business policy roundtable on microinsurance development
Four officers attended a two-day training workshop on "credit rating and analysis" organized by JCR-VIS in Karachi
IT leadership delegates from ZTBL visited IS&T Department and a briefing was given on ways to implement IT related business solutions in their organization.
The SECP becomes full signatory to the IOSCO Multilateral Memorandum of Understanding
Role of Independent Directors at the Pakistan Institute of Corporate Governance
SECP Meetings with the Bond Automated Trading Systems Review Committee

February 2011
Workshop by the SECP in collaboration with ICMAP, Islamabad, covering company incorporation procedure, role of directors and company secretaries and compliance matters
A training attended by ten officers on "International Conference on Islamic Banking & Finance" held at NIBAF, Islamabad
Conference on Islamic business organized by Riphah International University in Islamabad attended by the officers of the Modaraba Wing
3rd International Course on Islamic Capital Markets; A Window to Betterment and Justice, Tehran, Islamic Republic of Iran
Two officers attended workshop on Takaful held in RIPHA Centre of Islamic Business(RCIB), Islamabad
Three officers attended a conference on "International Conference on Islamic Business and Finance" at RIPHA Centre of Islamic Business(RCIB)

March 2011
The SECP officers met Director, Field Operations and other officials of Pakistan Agriculture Cold Chain Development (PACCD) in Quetta for corporatization in agriculture sector and provision of information/guidelines for registering companies with the SECP
The SECP officers met corporate consultants and company secretaries at the Faisalabad CRO to address the observations on already filed statutory returns

March 2011
The SECP officers visited the Larkana Chamber of Commerce and Industry to promote corporatization and eServices
The SECP officer visited NIFT, Sukkur office, to compare notes on digital signature related problems
The SECP officer visited SMEDA, Sukkur office to promote corporatization
The SECP officers visited SMEDA, Multan office, to promote corporatization
Four officers attended a training workshop on "Corporate Governance" organized by IFC at Karachi
Executive Director (IS&TD) nominated as a member of National CAC ICT Committee.
A meeting of officials of the SECP with MAP and LAP was held at CRO, Karachi on the launch of MAP and LAP yearbooks
Meeting with the Executive Committee of the Modaraba Association of Pakistan (MAP) on March 23-24, 2011 to discuss various issues pertaining to the development of the Modaraba Sector

April 2011
Meeting of SECP officers with Executive Committee of Chamber of Commerce and Industry, Quetta to promote corporatization and eServices
The SECP officers met corporate consultants at the Islamabad CRO on SECP's activation campaign
Five directors attended the Off-Site Meeting SECP - The Way Forward
One officer from the Insurance Division visited Colombo, Sri Lanka to meet the Insurance Board of Sri Lanka and other relevant institutions to complete the feasibility study of "Terrorism Insurance Pool"
IT leadership delegates from EOBI and PITAD meets IS&TD's CIO to study the infrastructure and technologies implemented in the Commission for automation. They were assisted in devising and developing IT strategies planning and defining IT related objectives and aligning them with their organization's business objectives.
Two Officer attended a seminar on High Performance Culture Through Leadership Behavior
Monitoring Reporting Entity Compliance, AUSTRAC, Australia

May 2011
Executive Director (C&C) attended the 6th meeting of the Asia Network of the OECD on Corporate Governance of State-owned Companies in Seoul
Seminar on eServices in collaboration with Islamabad Bar Association
The SECP officers met corporate consultants at the Multan CRO for better co-ordination
The SECP officers met corporate consultants and company secretaries at the Faisalabad CRO to address the observations on already filed statutory returns
One officer from the Insurance Division visited Kathmandu, Nepal to meet the Insurance Board of Nepal and other relevant institutions to complete the feasibility study of "Terrorism Insurance Pool"
One officer from the Insurance Division visited Jakarta, Indonesia to meet the Insurance Department of Indonesia and other relevant institutions to complete the feasibility study of "Terrorism Insurance Pool"
One officer from the Insurance Division visited Manila, the Philippines to meet the Asian Development Bank, Insurance Commission of the Philippines and other relevant institutions to complete and conclude the feasibility study of "Terrorism Insurance Pool"
A meeting of officials of the SECP with IBAP in Karachi

May 2011
Three officers attended a workshop on “Strengthening Parliamentary Oversight for effective implementation of AML/CFT legislation" organized by The United Nations Counter Terrorism Executive Directorate (CTED) in Islamabad
Two SECP officers accompanied the consultant hired under ADB’s TA program to visit Sri Lanka, Indonesia and Nepal to study the terrorism insurance pool – its structure, regulatory framework, management and underwriting guidelines, pool’s exposure and pricing, etc.
One officer attended workshop on Strengthen Parliamentary Oversight for Effective Implementation of AML/CT Legislation held in Islamabad
SECP meeting with the PMEX Board’s Member Directors representing KSE and PMEX Management
SECP meeting with the NCCPL Management
SECP meeting with the CDC Management

June 2011
The SECP officers met consultants of Sukkur and Nawabshah at CRO Sukkur for better co-ordination and image enhancement of SECP
Meeting with corporate consultants at the Lahore CRO to get feedback on eServices and services provided by the Lahore CRO
Presentation by Director MIS on eServices at a seminar organized by Federal Urdu University of Arts, Science and Technology Islamabad
Two officers attended a two-day training on “Financial Reporting – Dealing with Complexities” organized by Consult Finman at Karachi
Two officers attended an international conference on Islamic microfinance held at International Islamic University, Islamabad

Appendices

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

pwc

A. F. FERGUSON & CO.

INDEPENDENT AUDITORS' REPORT
TO THE FEDERAL GOVERNMENT OF PAKISTAN

We have audited the accompanying financial statements of the Securities and Exchange Commission of Pakistan (the Commission), which comprise the statement of financial position as at June 30, 2011 and the statement of comprehensive income, the statement of cash flows and the s tatement of changes in funds for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Commission as at June 30, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Islamabad: September 7, 2011

Name of the audit engagement partner: S Haider Abbas

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2011

	Note	2011	2010
		Rupees in thousand	
Property and equipment	4	231,078	272,064
Intangibles	5	19,090	18,371
Long term investments	6	559,861	568,495
Loans and advances	7	26,181	30,473
Current assets			
Advances, deposits, prepayments and other receivables	8	544,356	384,659
Short term investments - available for sale	9	2,471,697	2,147,294
Cash and bank balances	10	60,101	138,501
		3,076,154	2,670,454
Current liabilities			
Accrued and other liabilities	11	(504,532)	(461,511)
Net current assets		2,571,622	2,208,943
Provision for prior years' taxation	21	(42,316)	(152,201)
Deferred taxation	12	(8,268)	10,185
Deferred liability	13	(46,740)	(41,500)
Deferred grant	14	(1,232)	(1,449)
Net assets		3,309,276	2,913,381
Represented by:			
General reserve		800,000	800,000
Assets (land and building) acquisition reserve		2,600,000	2,600,000
Accumulated comprehensive deficit of income over expenditure		(90,724)	(486,619)
		3,309,276	2,913,381
Contingencies and commitments	15		

The annexed notes 1 to 27 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011	2010
		Rupees in thousand	
INCOME			
Fees and other recoveries	16	1,609,270	1,296,162
Other income	17	411,845	475,402
		2,021,115	1,771,564
EXPENDITURE			
Salaries, allowances and other benefits	18	906,778	755,473
Operating expenses	19	332,733	323,278
Depreciation and amortization		99,446	118,984
Amortization of premium on Pakistan Investment Bonds		8,634	8,635
Bank charges		3,840	3,846
		1,351,431	1,210,216
EXCESS OF INCOME OVER EXPENDITURE		669,684	561,348
Amortization of deferred grant		217	216
SURPLUS OF INCOME OVER EXPENDITURE BEFORE TAX		669,901	561,564
TAXATION	20	255,088	198,082
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX FOR THE YEAR		414,813	363,482
Provision for prior years' taxation	21	461	(99,353)
SURPLUS OF INCOME OVER EXPENDITURE AFTER TAX		415,274	264,129
OTHER COMPREHENSIVE (DEFICIT) /SURPLUS OF INCOME OVER EXPENDITURE - NET OF TAX			
Actuarial losses on staff retirement funds	11.1.3	(29,813)	(58,067)
Tax credit related to actuarial losses on staff retirement funds		10,434	20,323
		(19,379)	(37,744)
TOTAL COMPREHENSIVE SURPLUS OF INCOME OVER EXPENDITURE		395,895	226,385

The annexed notes 1 to 27 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	Rupees in thousand	
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus of income over expenditure before tax	669,901	561,564
Adjustments for:		
- Depreciation and amortization	99,446	118,984
- Amortization of premium on Pakistan Investment Bonds	8,634	8,635
- Amortization of deferred grant	(217)	(216)
- Provision for pension	44,370	28,572
- Provision for gratuity	49,560	36,390
- Provision for leave encashment	8,398	14,385
- Interest income	(409,468)	(470,712)
- Gain on sale of property and equipment	(1,230)	(3,554)
	(200,507)	(267,516)
Operating income before working capital changes	469,394	294,048
Increase in loans to employees and advances, deposits, prepayments and other receivables	(65,568)	(8,299)
Increase in accrued and other liabilities	146,673	139,125
	550,499	424,874
Contribution to pension fund	(117,624)	(39,057)
Contribution to gratuity fund	(109,771)	(40,700)
Leaves encashed	(3,158)	(5,012)
Taxes paid	(253,903)	(1,067,266)
	(484,456)	(1,152,035)
Net cash generated from/ (used in) operating activities	66,043	(727,161)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(69,225)	(77,716)
Proceeds from sale of property and equipment	11,276	12,908
Net (increase)/ decrease in investments	(315,769)	537,110
Interest received on investments and bank deposits	229,275	373,766
Net cash (used in)/ generated from investing activities	(144,443)	846,068
Net (decrease)/ increase in cash and cash equivalents	(78,400)	118,907
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	138,501	19,594
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (note-10)	60,101	138,501

The annexed notes 1 to 27 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General reserve	Assets (land and building) acquisition reserve	Accumulated comprehensive surplus/ (deficit) of income over expenditure	Total
		Rupees in thousand		
Balance as at June 30, 2009	800,000	2,600,000	(713,004)	2,686,996
Comprehensive income:				
Surplus of income over expenditure	-	-	264,129	264,129
Other comprehensive deficit of income over expenditure	-	-	(37,744)	(37,744)
	-	-	226,385	226,385
Balance as at June 30, 2010	800,000	2,600,000	(486,619)	2,913,381
Comprehensive income:				
Surplus of income over expenditure	-	-	415,274	415,274
Other comprehensive deficit of income over expenditure	-	-	(19,379)	(19,379)
	-	-	395,895	395,895
Balance as at June 30, 2011	800,000	2,600,000	(90,724)	3,309,276

The annexed notes 1 to 27 form an integral part of these financial statements.

CHAIRMAN

COMMISSIONER

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND OPERATIONS

Securities and Exchange Commission of Pakistan (the Commission) was established as a body corporate under the Securities and Exchange Commission of Pakistan Act, 1997 (the Act) for the beneficial regulation of capital markets, superintendence and control of corporate entities and for matters connected therewith and incidental thereto. The Commission operates through eight Company Registration Offices across the country.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Federation of Accountants (IFAC). However, the Commission is not required to comply with the requirements of IFRSs.

Preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Commission's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.16.

Amendments to published standards and new standards:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Property and equipment

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

Depreciation is calculated on a straight line method to write off the depreciable amount of each asset over its estimated useful life. Rates of depreciation are specified in note 4 to the financial statements. Depreciation on additions during the year is charged from the date of acquisition or the date the asset is available for use and on disposals up to the date of disposal.

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

During the year, the Commission has changed the rate of depreciation of computers from 33.33% to 25% and 20% as per following detail,

Servers, storage, network and other equipment	20%
Desktops, laptops, scanners and printers	25%

This change in accounting estimates has been applied prospectively in accordance with the IAS-8 "Accounting Policies, Change in Accounting Estimates and Errors". The change has resulted in increase in surplus for the year before tax by Rs. 20.151 million with corresponding increase in property and equipment.

3.2 Intangibles

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

During the year, the Commission has changed the rate of amortization of intangible assets from 33.33% to 20%.

This change in accounting estimates has been applied prospectively in accordance with the IAS-8 "Accounting Policies, Change in Accounting Estimates and Errors". The change has resulted in increase in surplus for the year before tax by Rs. 2.881 million with corresponding increase in intangibles.

3.3 Taxation

Current

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

Deferred

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

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

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

3.4 Receivables

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

3.5 Payables

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

3.6 Employee benefits

Defined contribution plan

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

Defined benefit plans

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

(i) Pension Fund

The Commission maintains approved funded defined pension plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2011.

(ii) Gratuity Fund

The Commission maintains approved funded defined gratuity plan for its employees eligible for this benefit plan as per policies of the Commission. Annual contributions are made to the Fund on actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2011.

Actuarial gains/ losses arising on defined benefit plans are recognized at higher of one-third of the cumulative actuarial gains/ losses at end of the current reporting period or 'corridor' approach in the Statement of Comprehensive Income as other comprehensive income.

Compensated absences

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

The provision for compensated absences is determined on the basis of actuarial recommendations using "Projected Unit Credit Method". The most recent actuarial valuation was conducted on June 30, 2011.

3.7 Deferred grant

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

3.8 Revenue recognition

Fees and other recoveries are recognized on accrual basis.

Penalties are recognized on receipt basis.

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

3.9 Administered projects

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

3.10 Impairment

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

3.11 Investments

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

Available-for-sale investments are measured at fair value. Investment in unquoted securities are measured at cost less impairment losses, if any.

3.12 Long term loans to employees

Long term loans are initially recognized at present value of loan amount disbursed. On initial recognition, the discount representing difference between loan disbursed and its present value is charged in the statement of comprehensive income. Subsequently, the unwinding of discount on present value of loans is recognized as income over the loan term using effective interest method.

3.13 Provisions

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

3.14 Financial instruments

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

3.15 Cash and cash equivalents

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

3.16 Use of critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

(i) Useful lives of property and equipment and intangibles (notes 4 and 5)
(ii) Provision for current and deferred taxation (note 20)
(iii) Provision against staff retirement benefits (note 11.1 and 13)

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

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

4. PROPERTY AND EQUIPMENT

Statement of property and equipment is as follows:

	Leasehold land	Building	Leasehold improvement	Office equipment	Other equipment	Computers	Furniture and fixtures	Vehicles	Subtotal	Capital work-in-progress	Total
	Rupees in thousand										
Cost	2,053	34,264	48,982	34,624	7,830	240,424	24,237	171,568	563,982	46,227	610,209
Accumulated depreciation	-	(15,008)	(21,849)	(24,931)	(2,563)	(140,070)	(17,888)	(63,586)	(285,895)	-	(285,895)
Net book value as at June 30, 2009	2,053	19,256	27,133	9,693	5,267	100,354	6,349	107,982	278,087	46,227	324,314
Additions during the year	-	-	511	8,250	905	10,491	1,418	8,155	29,730	38,056	67,786
Transfers	-	-	2,791	-	-	-	1,907	17,617	22,315	(22,315)	-
Disposals											
Cost	-	-	-	(242)	-	(642)	-	(21,949)	(22,833)	-	(22,833)
Depreciation	-	-	-	179	-	458	-	12,842	13,479	-	13,479
Net book value	-	-	-	(63)	-	(184)	-	(9,107)	(9,354)	-	(9,354)
Depreciation during the year	-	(1,713)	(7,229)	(5,790)	(1,720)	(57,442)	(2,550)	(34,238)	(110,682)	-	(110,682)
Net book value as June 30, 2010	2,053	17,543	23,206	12,090	4,452	53,219	7,124	90,409	210,096	61,968	272,064
Cost	2,053	34,264	52,284	42,632	8,735	250,273	27,562	175,391	593,194	61,968	655,162
Accumulated depreciation	-	(16,721)	(29,078)	(30,542)	(4,283)	(197,054)	(20,438)	(84,982)	(383,098)	-	(383,098)
Net book value as at June 30, 2010	2,053	17,543	23,206	12,090	4,452	53,219	7,124	90,409	210,096	61,968	272,064
Additions during the year	-	-	255	-	2,412	30,590	1,270	8,167	42,694	15,840	58,534
Transfers	-	-	-	-	-	-	-	36,896	36,896	(36,896)	-
Disposals											
Cost	-	-	-	-	-	(300)	-	(27,486)	(27,786)	-	(27,786)
Depreciation	-	-	-	-	-	257	-	17,483	17,740	-	17,740
Net book value	-	-	-	-	-	(43)	-	(10,003)	(10,046)	-	(10,046)
Depreciation during the year	-	(1,712)	(7,329)	(5,799)	(1,748)	(34,132)	(1,645)	(37,109)	(89,474)	-	(89,474)
Net book value as June 30, 2011	2,053	15,831	16,132	6,291	5,116	49,634	6,749	88,360	190,166	40,912	231,078
Cost	2,053	34,264	52,539	42,632	11,147	280,563	28,832	192,968	644,998	40,912	685,910
Accumulated depreciation	-	(18,433)	(36,407)	(36,341)	(6,031)	(230,929)	(22,083)	(104,608)	(454,832)	-	(454,832)
Net book value as at June 30, 2011	2,053	15,831	16,132	6,291	5,116	49,634	6,749	88,360	190,166	40,912	231,078
Depreciation rate (%) per annum	-	5%	20%	30%	20%	20% / 25%	10%	20%			

4.1 Cost of property and equipment includes fully depreciated leasehold improvements, office equipment, computers, furniture and fixtures and vehicles of Rs. 16,058 thousand, Rs. 27,011 thousand, Rs. 202,805 thousand, Rs. 13,282 thousand and Rs. 16,693 thousand (2010 : Rs. 15,800 thousand, Rs. 20,087 thousand, Rs. 99,001 thousand, Rs. 11,643 thousand and Rs. 2,381 thousand) respectively that were still in use at the year end.

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

	2011	2010
	Rupees in thousand	
Renovation of office premises	3,617	3,599
Advance against purchase of vehicles	15,840	36,914
Equipment for disaster recovery centre	21,455	21,455
	40,912	61,968

5. INTANGIBLES

	Computer Software Rupees in thousand
Cost	27,905
Accumulated amortization	(11,162)
Net book value as at June 30, 2009	16,743
Additions during the year	9,930
Amortization during the year	(8,302)
Net book value as at June 30, 2010	18,371
Cost	37,835
Accumulated amortization	(19,464)
Net book value as at June 30, 2010	18,371
Additions during the year	10,691
Amortization during the year	(9,972)
Net book value as at June 30, 2011	19,090
Cost	48,526
Accumulated amortization	(29,436)
Net book value as at June 30, 2011	19,090
Amortization rate (%) per annum	20%

6. LONG TERM INVESTMENTS

		2011	2010
		Rupees in thousand	
Held to maturity			
Pakistan Investment Bonds	6.1	249,861	258,495
Regular Income Certificates	6.2	300,000	300,000
		549,861	558,495
Available for sale			
Investment in Pakistan Institute of Capital Markets	6.3	10,000	10,000
		559,861	568,495

6.1 Pakistan Investment Bonds

	2011	2010
Face value	235,000	235,000
Unamortized premium	14,861	23,495
	249,861	258,495

These represent investment in ten year Pakistan Investment Bonds (PIBs) having face value of Rs. 235 million. Profit is receivable semi-annually at the rates ranging between 9% to 12% per annum. Fair value of these PIBs at the year end was Rs. 225.77 million (2010: Rs. 226.403 million). These investments will mature in years 2011, 2012 and 2013.

6.2 Regular Income Certificates

These represent investment in Regular Income Certificates (RICs) under National Savings Scheme. These carry mark up at the rate of 13.6% per annum and is receivable on monthly basis. Fair value of these RICs is Rs. 300 million as at June 30, 2011 (2010: 300 million). These investments will mature in 2014.

6.3 Investment in Pakistan Institute of Capital Markets

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

7. LOANS AND ADVANCES

	2011	2010
	Rupees in thousand	
Loans and advances - considered good	55,512	50,042
Less: current portion of loans and advances	(29,331)	(19,569)
	26,181	30,473

These represent interest free loans to employees for various purposes as per their employment terms, secured against employees' retirement benefits. Principal amount of loan is recoverable in periods upto August 2020 in monthly installments. The carrying value is net of discount of Rupees 14.619 million representing difference between loan balance and its present value.

8. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2011	2010
	Rupees in thousand	
Current portion of long term loans to employees - considered good	29,331	19,569
Short term loans to employees - secured, considered good - note 8.1	12,927	8,933
Advances	3,125	2,054
Deposits	2,758	2,731
Prepayments	56,635	7,524
Advance tax - net	15,694	97,417
Fee receivable - considered good	5,126	2,851
Receivable against administered projects - considered good - note 8.2	-	(894)
Mark up receivable on long term investments	10,702	23,752
Mark up receivable on short term investments	402,891	218,281
Mark up receivable on loans to employees	967	967
Other receivables - considered good	4,200	1,474
	544,356	384,659

8.1 These represent interest-free house rent advance and miscellaneous loans given to employees recoverable/ adjustable on a monthly basis. The amount is secured against the employees' share of post employment benefits.

8.2 Receivable against administered projects - considered good

Transactions and balances against administered projects are as follows:

	Capacity Building	Supporting Capital Market Reforms	Total
	note 8.2.1	note 8.2.2	
	Rupees in thousand		
Expenditure in excess/ (short) of receipts at beginning of the year	(14)	(880)	(894)
Expenditure during the year	-	1,519	1,519
Receipts/ adjustments during the year	14	(639)	(625)
Expenditure in excess/ (short) of receipts at end of the year	-	-	-
	-	-	-

8.2.1 Capacity Building of the Commission

A grant of US $ 454,000 (approximately equivalent to Rs. 30,872,000) was funded by the World Bank under Institutional Development Fund to strengthen the Commission's abilities to build a facilitative and cohesive legal framework and develop independent and high quality professional service providers. The Commission has contributed US $ 25,000 (approximately equivalent to Rs. 2,032,500) in cash and provided support, mainly in terms of office space, research support, key personnel and other logistic support to the project. A sum of Rs. 18,670,163 has been expensed up to completion of the project in September 2009.

Further, Asian Development Bank (ADB) provided support of Rs. 415,000 for funding a study-team visit to Australia for the purpose of strengthening financial regulation and supervision in Pakistan.

8.2.2 Supporting Capital Market Reforms Program

Asian Development Bank approved funding of US $ 1,340,000 (approximately equivalent to Rs. 113,900,000) for supporting the Second Generation of Capital Market Reforms Program to strengthen corporate governance of capital markets to protect investors and improve market transparency, and to support the Government's privatization strategy through the stock exchange. A sum of Rs. 2,769,031 has been expensed till the completion of the project in June 30, 2011.

		2011	2010
		Rupees in thousand	
9. SHORT TERM INVESTMENTS - AVAILABLE FOR SALE			
Special Savings Account - National Savings Scheme	9.1	2,374,637	2,094,302
Investment in 3-months Term Depository Receipts (TDRs)	9.2	-	52,992
Investment in 3-months Government Treasury Bills (T-Bills)	9.3	97,060	-
		2,471,697	2,147,294

9.1 These represent investment in special saving account under National Savings Scheme. These carry mark up at the rates of 11.6% to 14.4% (2010: 11.6% to 15.4%) per annum. Mark-up is receivable after every 6 months and in case mark-up is not withdrawn, it automatically stands reinvested and the corresponding markup rate applied on principal for future periods is enhanced to reflect this reinvestment. Maturity period of this investment is three years.

9.2 These represent investment in 3-month TDRs, that carried mark-up at the rate of 11.50% and matured in July, 2010.

9.3 These represent investment in 3-month T-Bills, carrying mark-up at the rate of 13.162%, and maturing in August 2011.

		2011	2010
10. CASH AND BANK BALANCES		Rupees in thousand	
Cash in hand		238	603
Cash at bank - interest bearing accounts	10.1	59,863	137,898
		60,101	138,501

10.1 This represents cash maintained in MCB's interest bearing bank accounts carrying markup ranging from 5% to 9.5% (2010: 5% to 8.25%)

		2011	2010
		Rupees in thousand	
			Restated

11. ACCRUED AND OTHER LIABILITIES

	Note	2011	2010
Accrued expenses		51,645	56,697
Bonus payable		140,763	89,106
Accounts payable		1,896	1,251
Withholding tax payable		364	1,419
Payable to staff retirement funds	11.1	60,770	164,422
Unearned income	11.2	115,367	70,967
Provident fund payable		1,242	33
Other liabilities		132,485	77,616
		504,532	461,511

11.1 Payable to staff retirement funds

	2011	2010
Pension fund	60,357	117,624
Gratuity fund	413	46,798
	60,770	164,422

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

	Pension fund		Gratuity fund	
	2011	2010	2011	2010
	Rupees in thousand			
Net present value of defined benefit obligation - note 11.1.5	302,152	306,820	254,186	198,462
Fair value of plan assets - note 11.1.6	(205,641)	(108,908)	(226,120)	(107,459)
Deficit in the fund	96,511	197,912	28,066	91,003
Net unrecognized actuarial losses	(31,974)	(71,929)	(27,653)	(44,205)
Non-vested past service cost	(4,180)	(8,359)	-	-
Net liability recognized in the balance sheet	60,357	117,624	413	46,798

11.1.2 *The amount charged to comprehensive surplus/ (deficit) of income over expenditure is as follows:*

	Pension fund 2011	Pension fund 2010	Gratuity fund 2011	Gratuity fund 2010
Current service cost	13,144	8,501	35,570	28,743
Past service cost (for employees' opted out of the scheme)	4,180	4,180	-	-
Interest cost	42,955	24,751	27,785	19,901
Expected return on plan assets	(15,909)	(8,860)	(13,795)	(12,254)
	44,370	28,572	49,560	36,390

11.1.3 *The amount charged to other comprehensive surplus/ (deficit) of income over expenditure is as follows:*

	Pension fund 2011	Pension fund 2010	Gratuity fund 2011	Gratuity fund 2010
Actuarial loss recognized	15,987	35,964	13,826	22,103
Cumulative losses recognized in other comprehensive income	126,975	110,988	69,933	56,107

	Pension fund		Gratuity fund	
	2011	2010	2011	2010
	Rupees in thousand			

11.1.4 *Return on plan assets*

	Pension fund 2011	Pension fund 2010	Gratuity fund 2011	Gratuity fund 2010
Expected return on plan assets	15,909	8,860	13,795	12,254
Actual return on plan assets	17,312	11,424	26,739	433

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

11.1.5 *Changes in present value of defined benefit obligation*

	Pension fund 2011	Pension fund 2010	Gratuity fund 2011	Gratuity fund 2010
Opening balance of the defined benefit obligation	306,820	190,390	198,462	133,817
Current service cost	13,144	8,501	35,570	28,743
Interest cost	42,955	24,751	27,785	19,901
Non-vested past service cost	-	8,359		-
Vested past service cost	-	4,180		-
Benefits paid	(52,759)	(24,719)	(17,849)	(15,168)
Amount received from Government of Pakistan	14,556	14,989	-	-
Actuarial (gain) /loss	(22,564)	80,369	10,218	31,169
Closing balance of the defined benefit obligation	302,152	306,820	254,186	198,462

11.1.6 *Changes in fair value of plan assets*

	Pension fund 2011	Pension fund 2010	Gratuity fund 2011	Gratuity fund 2010
Opening balance of fair value of plan assets	108,908	68,157	107,459	81,494
Expected return on plan assets	15,909	8,860	13,795	12,254
Contributions to the fund	117,624	39,057	109,771	40,700
Benefits paid	(52,759)	(24,719)	(17,849)	(15,168)
Amount received from Government of Pakistan	14,556	14,989	-	-
Actuarial gain / (loss)	1,403	2,564	12,944	(11,821)
Closing balance of fair value of plan assets	205,641	108,908	226,120	107,459

The Commission expects to contribute Rs. 40,067 thousand (2010: Rs 64,734 thousand) and Rs 53,547 thousand (2010: Rs. 63,046 thousand) to its defined benefit pension and gratuity plans respectively during the next financial year.

11.1.7 *Break-up of category of assets*

	Pension fund		Gratuity fund	
	2011	2010	2011	2010
	Rupees in thousand			
Pakistan Investment Bonds	27,028	25,950	6,806	6,535
Special Savings Certificates	172,138	71,869	165,954	71,880
Bank accounts	6,475	11,089	53,360	29,044
	205,641	108,908	226,120	107,459

11.1.8 *Principal actuarial assumptions*

Actuarial valuation is carried out annually. Latest actuarial valuation was carried out as at June 30, 2010 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	Pension fund		Gratuity fund	
	2011	2010	2011	2010
Valuation discount rate - per annum	14%	14%	14%	14%
Salary increase rate - per annum	14%	14%	14%	14%
Expected return on plan assets - per annum	14%	14%	14%	14%

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

	2011	2010	2009	2008	2007
	---------- Rupees in thousand ----------				
Present value of the defined benefit obligations	556,338	505,282	324,207	323,136	217,625
Fair value of plan assets	(431,761)	(216,367)	(144,707)	(108,674)	(122,242)
Deficit in the plans	124,577	288,915	179,500	214,462	95,383
Experience adjustments on plan liabilities	(12,346)	111,538	17,272	24,231	
Experience adjustments on plan assets	14,347	(9,257)	(284)	(24,993)	

11.2 Unearned income

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

12. DEFERRED TAXATION

	2011	2010
	Rupees in thousand	
The net balance of deferred taxation is in respect of the following temporary differences:		
- Accelerated depreciation and amortization	20,410	23,420
- Profit on short term investments accrued not received	(33,795)	(27,502)
- Discount on long term loan	5,117	-
- Staff retirement benefit funds	-	14,267
	(8,268)	10,185

13. DEFERRED LIABILITY

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

	2011	2010
	Rupees in thousand	
Obligation at beginning of the year	41,500	32,127
Expense for the year	8,398	14,385
Leaves encashed during the year	(3,158)	(5,012)
Obligation at end of the year	46,740	41,500

Principal actuarial assumptions

Latest actuarial valuation was carried out as at June 30, 2010 using Projected Unit Credit Method. Significant actuarial assumptions used are as follows:

	2011	2010
Valuation discount rate - per annum	14%	14%
Salary increase rate - per annum	14%	14%

14. DEFERRED GRANT

	2011	2010
	Rupees in thousand	
Opening balance	1,449	1,665
Less: Amortization for the year	(217)	(216)
	1,232	1,449

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

15. CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

(i) Certain parties filed suits against the Commission in respect of claims for damages. These include claims of Rs. 2,000 million, Rs. 206 million, Rs. 213 million and Rs. 1,000 million filed by Investec Securities, Al Mal Securities, Shaikh Abdul Wahid and others, and Nadeem Ahmed Khan respectively. Based on legal advise, the Commission is confident of a favourable outcome of these cases and that there will be no financial impact of these cases.

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

15.2 Commitments

Aggregate commitments for contracted capital expenditure at end of the year amounted to Rs. 72.050 million. (2010: Rs. 39.223 million).

	2011	2010
	Rupees in thousand	
16. FEES AND OTHER RECOVERIES		
Fees under the Companies Ordinance, 1984	1,071,929	800,596
Fees under the Modaraba Ordinance, 1980	3,394	3,661
Fees under the Insurance Ordinance, 2000	167,005	121,797
Fees on transactions executed at stock exchanges and other fees	106,872	84,104
Brokers' registration fees	16,740	5,562
Fee from Non Banking Finance Companies	243,330	280,442
	1,609,270	1,296,162
17. OTHER INCOME		
Income on bank deposits	9,460	4,637
Income on investments	399,815	465,938
Interest on loans to employees	193	137
Gain on sale of property and equipment	1,230	3,554
Miscellaneous	1,147	1,136
	411,845	475,402
18. SALARIES, ALLOWANCES AND OTHER BENEFITS		
Salaries	300,888	277,560
House rent allowance	179,625	165,059
Medical allowance	41,463	39,159
Conveyance allowance	10,643	10,010
Utilities	29,897	27,469
Other allowance	215,109	132,318
Pension	44,370	28,572
Provident fund contribution	26,825	24,551
Gratuity	49,560	36,390
Leave encashment and allowance	8,398	14,385
	906,778	755,473
19. OPERATING EXPENSES		
Repairs and maintenance	44,961	44,709
Travelling and conveyance	41,800	38,464
Telephone, postage and courier	24,426	29,347
Utilities	14,377	14,606
Rent and rates	81,153	80,833
Printing and stationery	10,943	12,247
Legal and professional charges	18,448	11,009
Fees and subscription	4,462	4,367
Human resource development	11,858	3,606
Seminars and conference	861	124
Inspection cost	-	2
Insurance	6,983	7,461
Advertisement	3,525	3,003
Entertainment	440	394
Audit fee	259	215
Others	68,237	72,891
	332,733	323,278

20. TAXATION

	2011	2010
	Rupees in thousand	
Current tax		
- current year	236,636	205,024
- prior years	-	5,556
	236,636	210,580
Deferred tax		
- current year	2,829	(8,477)
- prior years	15,623	(4,021)
	18,452	(12,498)
	255,088	198,082

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

	2011	2010
	Rupees in million	
Surplus of income over expenditure	670	562
Actuarial losses on staff retirement funds	(30)	(58)
Total comprehensive surplus of income over expenditure before tax	640	504
Applicable tax @ 35%	224	176
Provision for tax contingencies	5	-
	229	176
Tax expense for the year (net of tax credit related to actuarial losses on staff retirement funds)	229	176

21. PROVISION FOR PRIOR YEARS' TAXATION

Net income tax demands in respect of tax years 2003 to 2007 amounting to Rs. 880.637 million were raised in prior years against which provision amounting to Rs 911.132 million (including default surcharge of Rs. 18.530 million) had been accounted for up to June 30, 2009.

The Commission's contention is that it has been brought under the tax net effective July 1, 2007 consequent to the insertion of sub-section (4) to section 49 of the Income Tax Ordinance, 2001 through Finance Act, 2007 and as such is not liable to pay income tax for the years prior to 2008. Based on this contention, the Commission appealed to the Commissioner Inland Revenue (Appeals) - CIR (A) against the tax demands. The CIR (A) rejected the appeals for the years 2004-2007, however, demand for tax year 2003 amounting to Rs. 34.318 million was set aside by the CIR (A). The Commission contested the demands for the remaining years in the Appellate Tribunal Inland Revenue (ATIR) which rejected the appeals of the Commission. This decision of the ATIR was challenged in Lahore High Court Rawalpindi Bench which has admitted the appeal for regular hearing and in the interim, granted a stay order for recovery of demands by FBR.

Subsequently, pursuant to the demands made by Ministry of Finance for making payment of disputed tax amounting to Rs. 846.319 million, the Commission in its emergent meeting held on June 30, 2010, resolved that the payment as demanded by Ministry of Finance may be made and in the event final decision of the case pending with Lahore High Court Rawalpindi bench is in Commission's favor, such payments be adjusted from future taxes. Based on this decision, Rs. 846.319 million was paid on June 30, 2010. During the current year, further amount of Rs. 109.885 million has been settled against default surcharge levied under section 205 of the Income Tax Ordinance, 2001. Since the matter is still under litigation the balance of Rs. 42.316 million has been carried as a provision in the financial statements as at June 30, 2011.

22. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

22.1 Interest rate risk exposure

The Commission's exposure to interest rate risk on its financial assets and liabilities are summarized as follows:

	Interest bearing		Non interest bearing	Total
	Due within one year	Due after one year		
June 30, 2011				
Financial assets				
Long term investments	-	549,861	10,000	559,861
Long term loans to employees	-	-	26,181	26,181
Advances and other receivables	-	-	484,596	484,596
Short term investments	2,471,697	-	-	2,471,697
Cash and bank balances	59,863	-	238	60,101
Total	2,531,560	549,861	521,015	3,602,436
Financial liabilities				
Accrued and other liabilities	-	-	389,165	389,165
Total	-	-	389,165	389,165
Excess of financial assets over financial liabilities	2,531,560	549,861	131,850	3,213,271
June 30, 2010				
Financial assets	2,285,192	558,495	416,157	3,259,844
Financial liabilities	-	-	390,544	390,544
Excess of financial assets over financial liabilities	2,285,192	558,495	25,613	2,869,300

22.2 Credit risk

The Commission believes that it is not exposed to major concentration of credit risk.

22.3 Foreign exchange risk management

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

22.4 Fair value of financial assets

The carrying amount of all financial instruments reflected in the financial statements approximate their fair value except for long-term investments as stated in note 6.

23. FUND MANAGEMENT

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

24. RELATED PARTY TRANSACTIONS

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

In addition to above, key management personnel and employee benefit plans are related parties of the Commission. Transactions with key management personnel have been carried out in normal course of business in accordance with their employment terms. Transactions and balances relating to employee benefit plans have been disclosed in respective notes to the financial statements.

25. CORRESPONDING FIGURES

Corresponding figures have been re-arranged, where necessary, for the purpose of comparison.

26. GENERAL

The figures have been rounded to the nearest thousand Rupees.

27. AUTHORIZATION FOR ISSUE

These financial statements have been authorized for issue by the Commission on 07 SEP 2011.

CHAIRMAN

COMMISSIONER

Statistics

8.2 STATISTICS

8.2.1 CORPORATE SECTOR

TABLE 1

Sr. #	Relevant Section of the Ordinance.	Nature of Approval / Permission Sought	Cases Disposed (No.)
1	Section 21	Amendment to memorandum & articles of association	305
2	Section 37	Availability of name	9,309
3	Section 39	Change of name	229
4	Section 42	Grant of license to associations not for profit	53
5	Section 44	Conversion of public companies into private companies	8
6	Section 84	Issue of share at discount	4
7	Section 86	Further issue of capital	1,159
8	Proviso of Sub-section (1) of Section 86	Issue of shares other than right	2
9	Section 90 & Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000	Issue of shares having different kinds and/or classes of share capital	5
10	Sections 121,129,132,131	Registration, modification, satisfaction of charge & condoning of delay in submission of particulars of charge	6,726
11	Section 146	Commencement of business certificate	10
12	Sections 158	Extension in period for holding of AGM s by non-listed public and private companies	162
13	Section 159 (7)	Holding of an EOGM at a shorter notice	19
14	Section170	Calling of overdue meetings	25
15	Section 231	Inspection of books of account and other books & paper	2
16	Section 233	Preparation of first accounts exceeding 12 months	10
17	Section 234 (5)	Exemption from disclosure requirements	2
18	Section 234 A	Appointment of inspector for conduct of special audit	2
19	Section 237	Exemption for Consolidation of Accounts	3
20	Section 238	Change of financial year	2
21	Section 252	Appointment of auditors	1,065
22	Section 258	Approval of appointment of cost auditor	53
23	Section 439(9)	Restoration of name of company to the register of companies	5
24	Section 466(6)	Issue of certified copies of documents	39,496
25	Regulation 18 of the Companies (Registration Offices) Regulations, 2003	Inspection of records maintained with the CROs	13,641
26	Regulation 4 of the Group Companies Registration Regulations, 2008	Registration of Group Companies	5

Sr. #	Relevant Section of the Ordinance.	Nature of Approval / Permission Sought	Cases Disposed (No.)
27	Regulation 8 of the Group Companies Registration Regulations, 2008	Designation of Group Companies	5
28	Rule 9 of Single Member Companies Rules 2003	Conversion of private to single-member company	3
29		Miscellaneous (minor activities, providing information to different agencies and shareholders, etc.)	671
		TOTAL	72,981

TABLE 2

Sr. #	Nature of complaint	Received	Disposed	Pending
1	Non-payment of dividend	2	2	0
2	Mismanagement of companies	13	9	4
3	Non-receipt of balance sheets	3	3	0
4	Non-receipt of notices	4	4	0
5	Non-registration of transfer of shares	4	4	0
6	Non-holding of AGM	1	1	0
7	Non-receipt of dividend warrant	1	1	0
8	Misappropriation	1	1	0
9	Misapplication of funds	2	2	0
10	Improper election of directors	4	4	0
11	Miscellaneous	198	191	7
	TOTAL	233	222	11

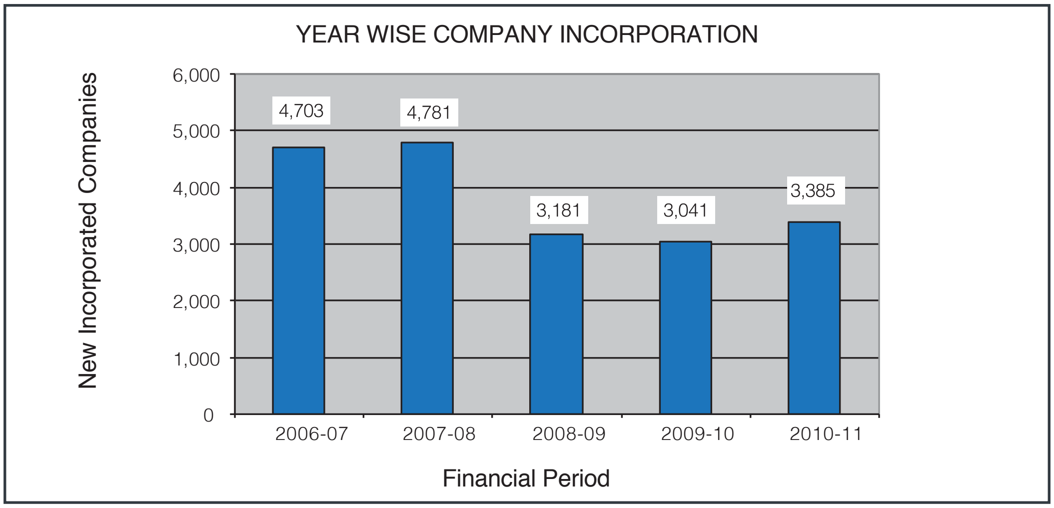
TABLE 3

Sr. #	Relevant section of the Ordinance	Nature of appeal	Received	Disposed	Pending
1	Section 37	Appeal against refusal of company name	23	16	7
2	Section 78 A	Appeal against refusal for registration of transfer	1	1	0
3	Section 468	Appeal against refusal to accept any document	2	2	0
4	Section 477	Appeal and revision application against order passed under section 476 (1)	8	8	2
5	Section 484	Revision and review of any order passed other than Section 476	3	3	0
		TOTAL	37	28	9

TABLE 4 NUMBER & TYPE OF COMPANIES

(Registered under the Companies Ordinance, 1984)

Type of companies	Newly incorporated companies for the financial year ending on June 30, 2011	Total companies as on June 30, 2011
Companies limited by shares:		
Public listed (only those that are registered under the Ordinance)		648
Public unlisted	32	2,207
Private	3,056	53,750
SMCs	214	1,225
Total companies limited by shares	3,302	57,830
Companies limited by guarantee u/s 43	4	73
Not-for-profit associations u/s 42	57	713
Foreign companies	22	798
Unlimited companies	-	3
Total Companies	**3,385**	**59,417**



Province-wise total registered companies

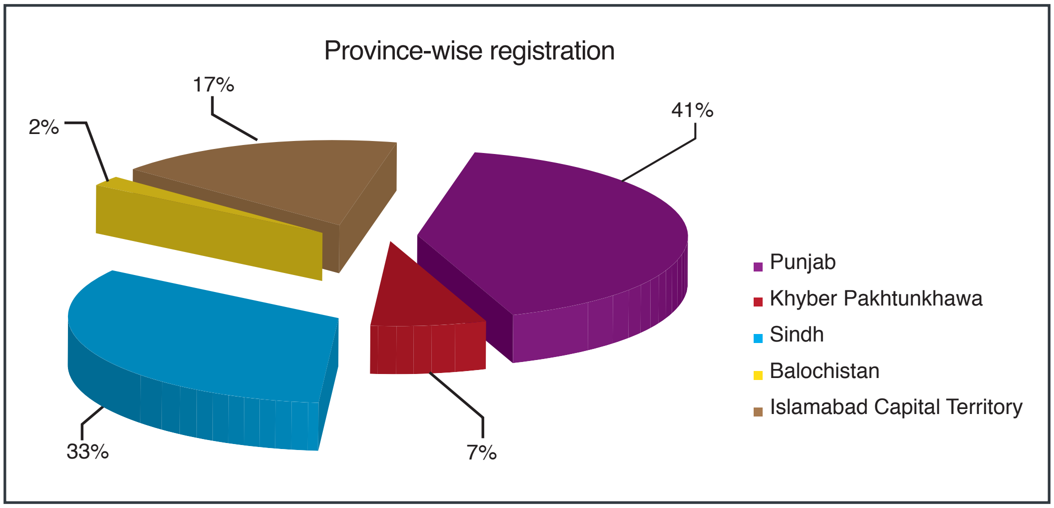


TABLE 5: CAPITALIZATION BREAKDOWN AS ON 30-06-2011

Paid-up capital (Rs)	Listed companies	Unlisted public companies	Private companies	SMCs	Total	Per-centage
Up to 100,000	5	408	21,395	742	22,550	39.00%
100,001 to 500,000	0	322	8,128	179	8,629	14.92%
500,001to 1,000,000	1	87	5,454	131	5,673	9.81%
1,000,001 to 10,000,000	33	331	14,335	120	14,819	25.62%
10,000,001 to 100,000,000	218	612	3,758	49	4,637	8.02%
100,000,001 to 500,000,000	230	298	578	3	1,109	1.92%
500,000,001 to 1,000,000,000	59	61	61	1	182	0.31%
1,000,000,001and above	102	88	41	0	231	0.40%
TOTAL	648	2,207	53,750	1,225	*57,830	

* Figure does not include 1587 companies not having share capital (i.e. foreign companies, not for profit associations u/s 42, companies limited by guarantee u/s 43 and trade organizations)

TABLE 6: SECTOR-WISE DISTRIBUTION

Sectors	Total Companies as on June 30, 2011		Newly Incorporated Companies for the financial year ended on June 30, 2011		Further issue of capital cases for the financial year ended on June 30, 2011	
	Num ber	Paid-up Capital (Rs)	Num ber	Paid-up Capital (Rs)	Num ber	Paid-up Capital (Rs)
Auto and Allied	699	16,962,271,352	56	832,921,700	22	639,121,590
Broadcasting & Telecasting	379	3,243,913,286	66	232,044,848	5	105,664,300
Cables & Electric Goods	657	25,145,406,752	37	40,010,920	18	4,582,041,230
Carpets and Rugs	83	544,817,348	2	200,000	0	0
Cement	109	76,469,703,626	1	299,158,304	5	11,322,941,360
Chemical	1,546	105,372,963,106	71	233,072,360	46	6,596,206,280
Pharmaceutical	1,161	18,196,363,231	77	130,549,720	36	817,463,250
Communications	2,394	334,752,665,370	149	194,323,390	28	4,964,714,440
Construction	2,751	24,374,514,342	205	273,608,650	18	2,351,009,850
Corporate Agricultural Farming	962	18,160,474,006	92	273,334,440	35	3,762,596,098
Education	743	1,965,438,298	96	205,585,110	12	540,206,400
Engineering	1,846	15,808,300,256	86	318,551,330	26	644,069,640
Finance and Banking	1,059	510,280,361,242	16	11,192,309,020	54	36,714,234,730
Food and Beverages	2,291	50,169,836,419	96	160,635,800	37	11,353,627,220
Footware	65	401,634,548	5	2,166,000	0	0
Fuel and Energy	1,114	139,827,020,394	61	154,675,310	21	12,619,048,370
Ginning	344	2,661,403,518	4	20,060,300	2	30,000,000
Glass and Ceramics	309	6,258,172,534	6	2,000,000	2	1,314,176,030
Healthcare	458	5,890,171,852	36	85,512,920	17	188,025,800

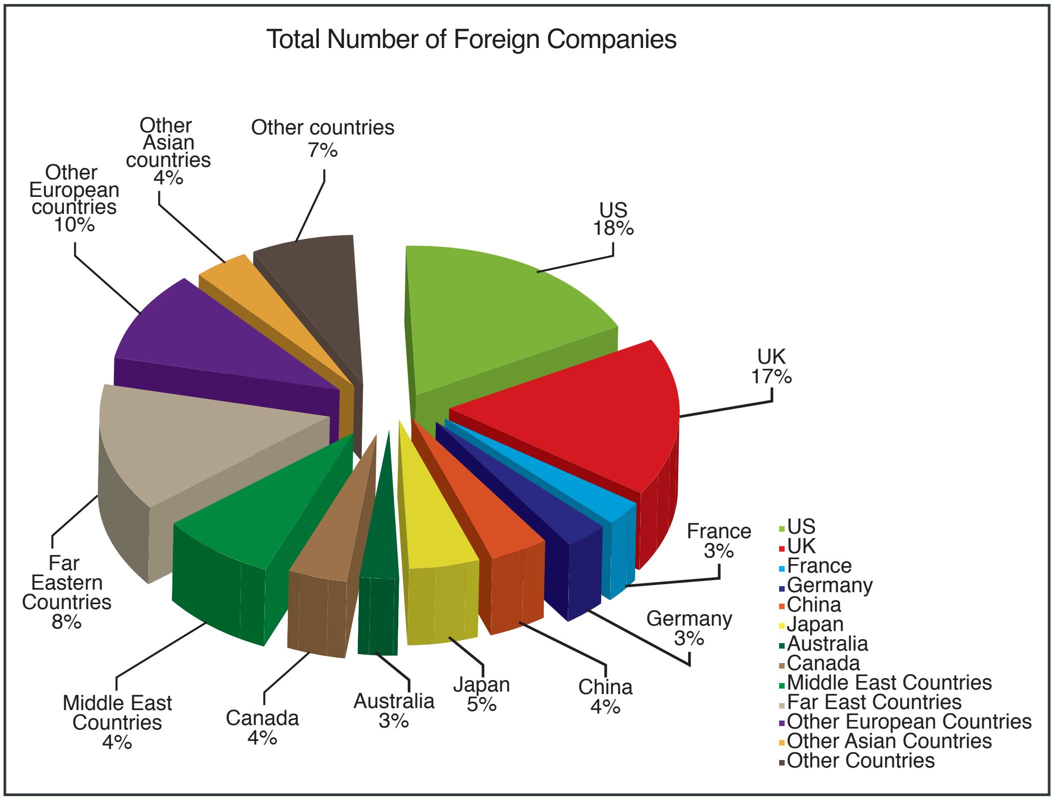
Sectors	Total Companies as on June 30, 2011		Newly Incorporated Companies for the financial year ended on June 30, 2011		Further issue of capital cases for the financial year ended on June 30, 2011	
	Num ber	Paid-up Capital (Rs)	Num ber	Paid-up Capital (Rs)	Num ber	Paid-up Capital (Rs)
Information Technology	2,382	12,717,672,555	209	144,015,950	17	117,087,448
Insurance	358	27,078,656,294	10	11,520,000	23	2,718,636,319
Jute	21	1,270,883,560	-	0	0	0
Leather and Tanneries	411	4,060,830,380	3	650,000	9	239,461,200
Lodging	463	7,333,565,652	14	21,410,200	4	402,899,000
Mining and Quarrying	488	2,617,541,912	31	291,402,300	8	1,206,399,970
Paper and Board	1,088	21,478,531,635	63	197,722,450	28	382,466,943
Power Generation	612	167,051,576,652	66	224,765,920	56	73,841,510,705
Real Estate Development	1,199	39,999,687,497	29	14,050,000	21	4,980,645,970
Services	6,721	20,837,067,651	495	329,539,110	91	2,055,428,820
Sport Goods	178	920,586,318	8	1,541,000	3	57,045,000
Steel and Allied	471	15,560,967,912	24	744,527,208	13	1,382,200,000
Sugar and Allied	171	22,839,444,918	9	1,301,488,300	4	110,160,170
Synthetic and Rayon	196	6,367,705,060	10	178,212,000	13	379,374,800
Textile	4,752	149,312,400,113	112	867,244,082	82	10,137,959,665
Tobacco	91	3,669,379,338	3	1,200,000	0	0
Tourism	5,723	20,226,089,154	217	694,807,030	197	632,352,100
Trading	6,886	43,588,370,104	508	1,403,953,492	75	2,402,072,570
Transport	1,236	46,862,198,982	113	130,419,460	26	7,527,575,920
Vanaspati and Allied	423	11,652,286,882	10	38,370,000	9	805,799,500
Wood & Wood Products	222	1,105,860,504	9	8,260,400	5	182,000,000
Miscellaneous	6,355	75,708,892,773	280	644,204,076	91	14,174,666,770
TOTAL	59,417	2,058,745,627,326	3,385	21,900,023,100	1,159	222,280,889,458

TABLE 7: NON-PROFIT ASSOCIATIONS

Object	Newly Incorporated associations for the year ended on June 30, 2011	No of associations as on June 30, 2011
Commerce	10	226
Art	2	9
Science	2	16
Religion	0	9
Sports	0	26
Social services	34	255
Charity	3	63
Others	10	182
TOTAL	61	786

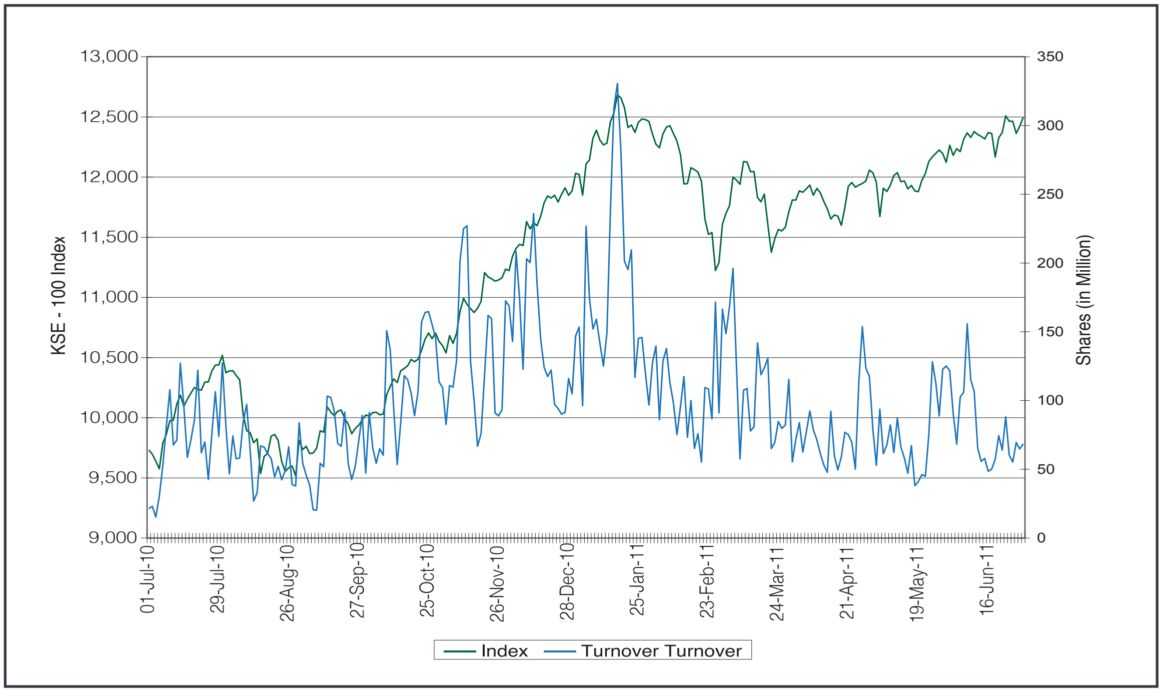
TABLE 8: FOREIGN COMPANIES

Country	Newly incorporated companies for the year ended on June 30, 2011	Number of companies as on June 30, 2011
US	4	154
UK	4	132
France	-	24
Germany	-	22
China	1	33
Japan	1	36
Australia	-	20
Canada	1	29
Middle Eastern countries	4	63
Far Eastern countries	5	114
Other European countries	1	81
Other Asian countries	1	34
Other countries	-	56
TOTAL	22	798

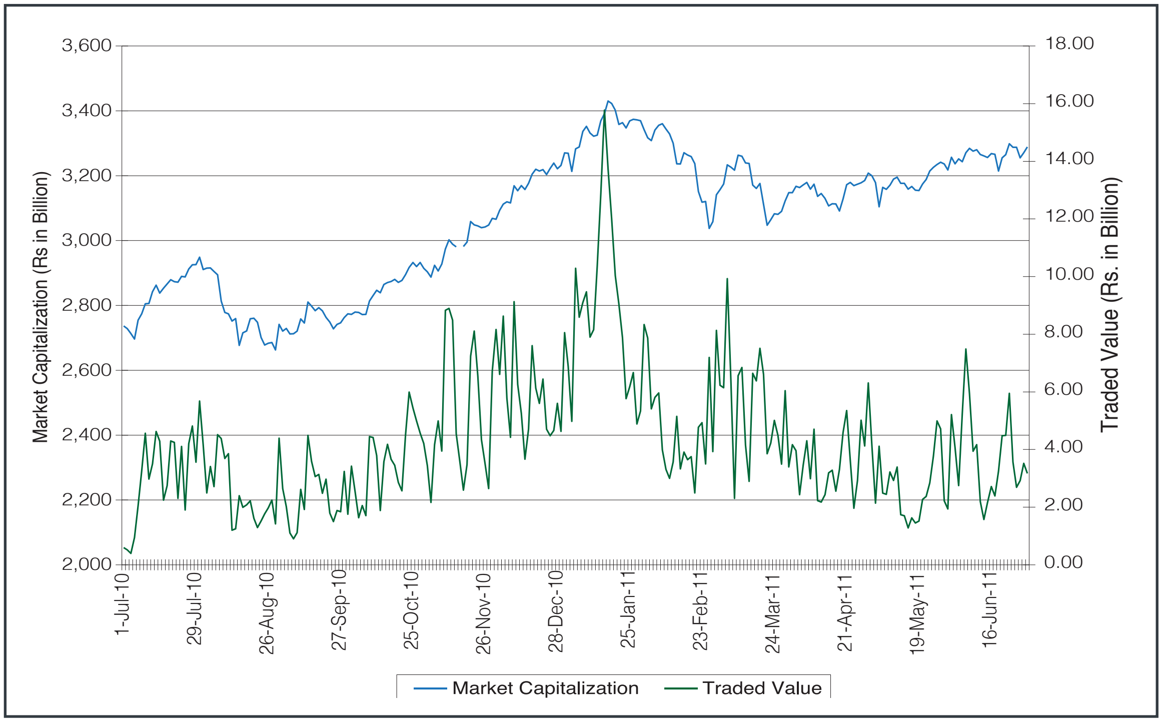


8.2.2 SECURITIES MARKET

8.2.2.1 KSE – 100 Index and daily turnover



8.2.2.2 KSE – Market capitalization and daily traded value



8.2.2.3 Issue of capital

8.2.2.3.1 Equity

(Rs in million where applicable)

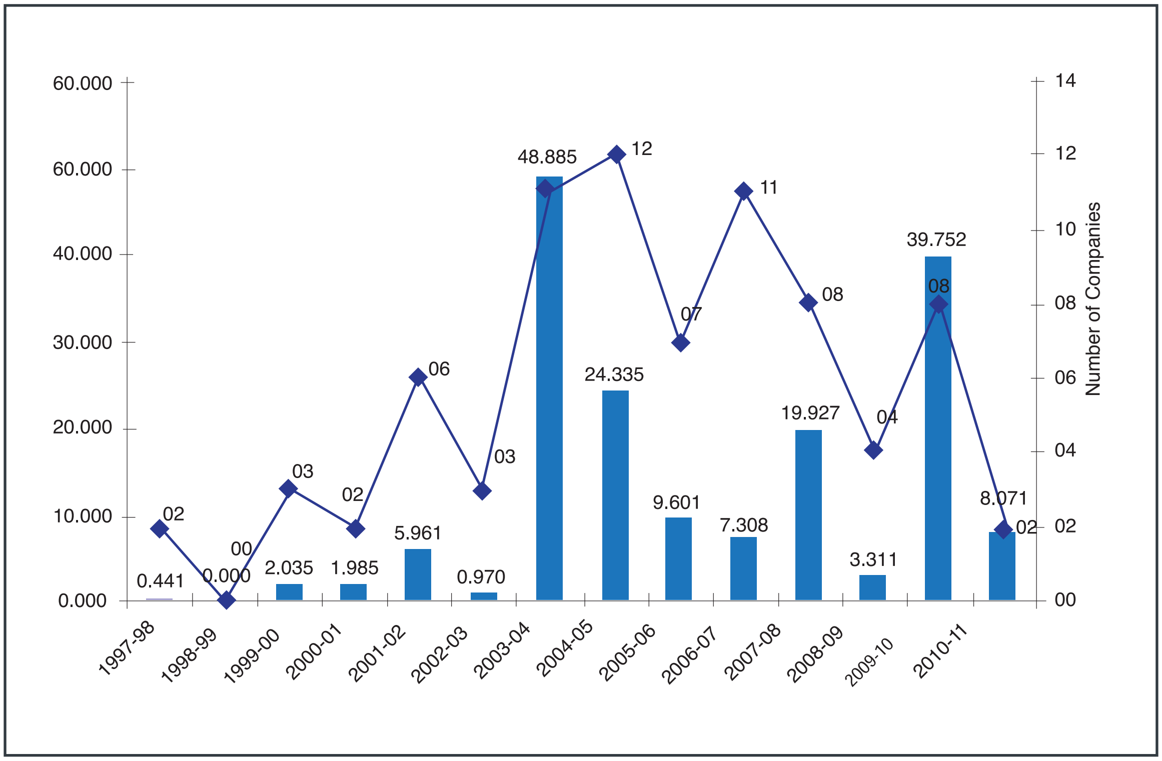
Sr. #	Name of Company	Sector	Subscription Date	Total Paid-up Capital	Already Paid-up Capital	Offered Capital	Premium per share (Rs)	Offered Capital (including premium, if any)	Subscription Received (Including premium if any)	Number of Times Subscribed
1	International Steels Limited (Offer for sale)	Industrial Metals & Mining	**3-4 May, 2011**	4,350.00	4,350.00	275.06	**4.06**	386.73	402.24	1.04
2	Pakgen Power Limited (Offer for sale)	Electricity	14-15 June, 2011	3,720.81	3,720.81	372.08	9.00	706.95	266.97	0.38
	TOTAL			8,070.81	8,070.81	647.14		1,093.68	669.22	

8.2.2.3.2 Book Building Portion

(Rs in million where applicable)

Sr. #	Name of Company	Sector	Bidding Date	Total Paid-up Capital	Already Paid-up Capital	Floor Price (Rs.)	No. of shares offered	Offered Capital (at floor price)	Bids Received			Strike Price (Rs.)	Over/ (under) subscribed %
									Min Bid (Rs.)	Max Bid (Rs.)	No. of Shares bid for		
1	International Steels Limited (Offer for sale)	Industrial Metals & Mining	12-14 April, 2011	4,350.00	4,350.00	12.90	61,875,500	798.19	12.90	15.25	150,800,000	14.06	2.44

8.2.2.3.3 Number of Equity Issues to Public during FYs 1998-2010



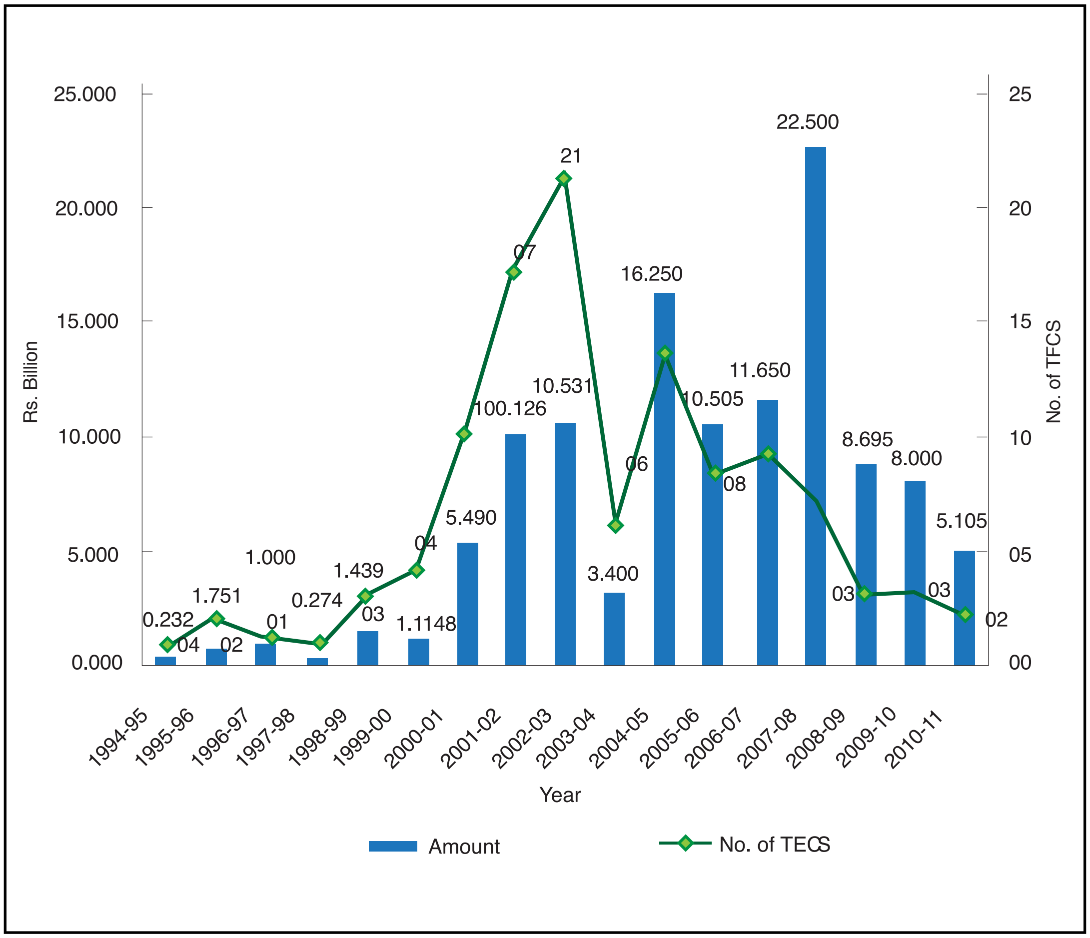
8.2.2.4 TFCs

(Rs in million)

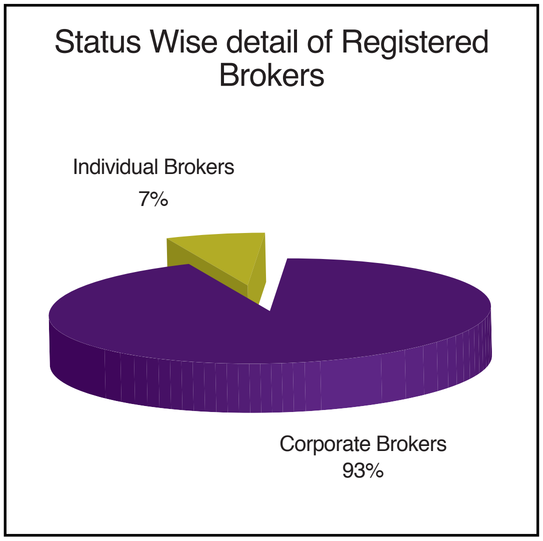
Sr. #	Name of Company	Sub-scription Date	Total Amount Offered			Subscription Received			Green Shoe Option	Amount Retained
			Pre-IPO	IPO	Total	Pre-IPO	IPO	Total		
1	Engro Corporation Limited (Engro Rupiya Certificate-1st Issue)	October 15, 2010 - January 15, 2011	0.00	2,000.00	2,000.00	-	4,000.82	4,000.82	up to 2,000.00	**4,000.00**
2	Engro Corporation Limited (Engro Rupiya Certificate-2nd Issue)	June 1, 2011 - August 31, 2011	0.00	2,000.00	2,000.00	-	1,104.80	1,104.80	up to 1,000.00	1,104.80
		TOTAL	0.00	4,000.00	4,000.00		5,105.62	5,105.62		5,104.80

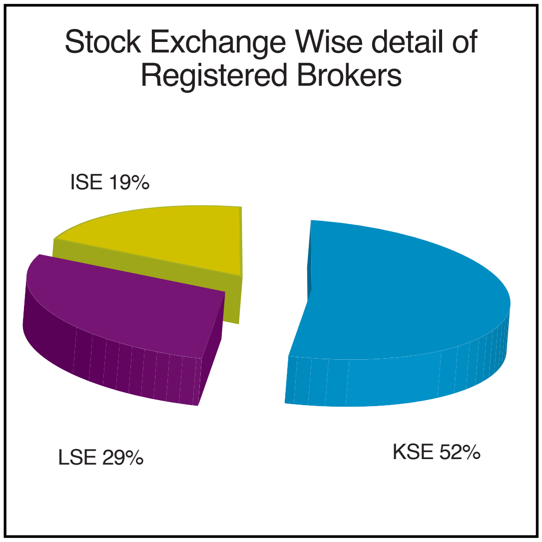
**Subscription received till July 16, 2011*

8.2.2.5 Number of TFCs floated during the FYs 1995-2011



8.2.2.6 Details of registered brokers





8.2.2.7 Certificates issued to brokers

Details	Corporate Brokers	Individual Brokers	Total Brokers
As of 30-06-2010	276	23	299
Cancelled/expired	(25)	(3)	(28)
Addition	5	0	5
As of 30-06-2011	256	20	276

8.2.2.8 Certificates issued to agents

Details	Total Agents
As of 30-06-2010	502
Cancelled/expired	(138)
Addition	58
As of 30-06-2011	422

8.2.2.9 Comparative analysis of complaints received and disposed of by Investors Complaint Wing (ICW)

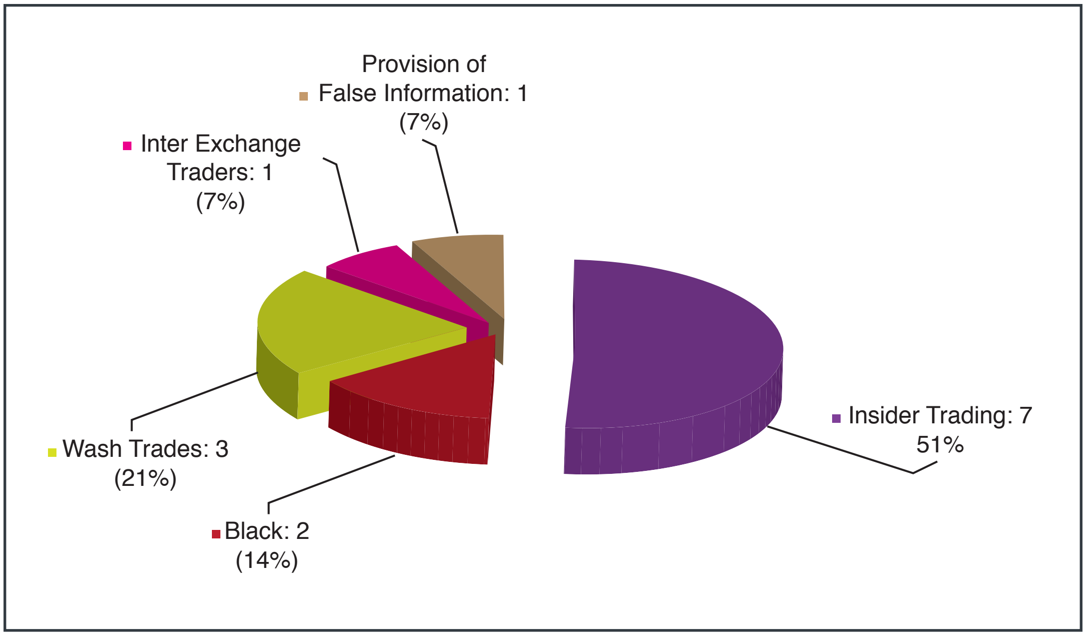
	KSE	ISE	LSE	Total
Number of complaints brought forward from previous financial year	1,333	75	8	1,416
New complaints/claims received during July 1, 2010 to June 30, 2011	72	74	5	151
Total complaints addressed by ICW from July 1, 2010 to June 30, 2011	1,405	149	13	1,567
Complaints disposed of during July 1, 2010 to June 30, 2011	38	42	5	85
Complaints outstanding with ICW as on June 30, 2011	1,367	107	8	1,482

8.2.2.10 Details of outstanding investor complaints

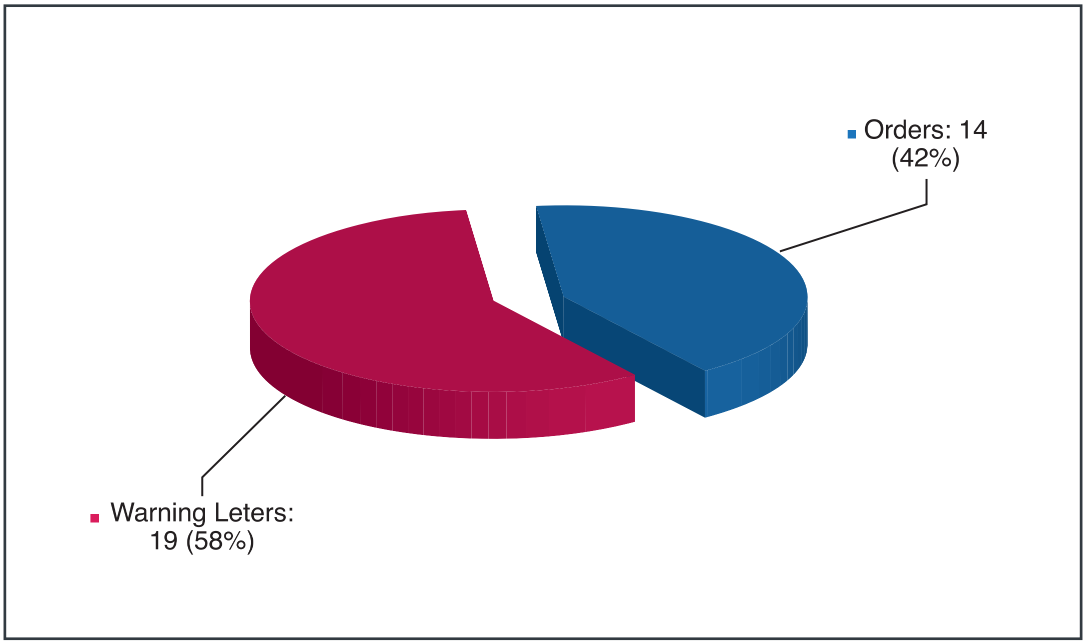
	KSE	ISE	LSE	Total
Complaints against suspended/expelled brokerage firms	1,321	89	6	1,416
Complaints pending with the stock exchanges for arbitration	8	6	-	14
Pending with members	13	1	2	16
Pending with complainants	4	3		7
Pending with SECP	-	2	-	2
Court cases	21	6	-	27
Total outstanding complaints	1,367	107	8	1,482

8.2.2.11 Administrative actions: Nature of breaches

8.2.2.11.1 Orders Issued by Market Surveillance Wing



8.2.2.12 Administrative actions: Types of sanctions



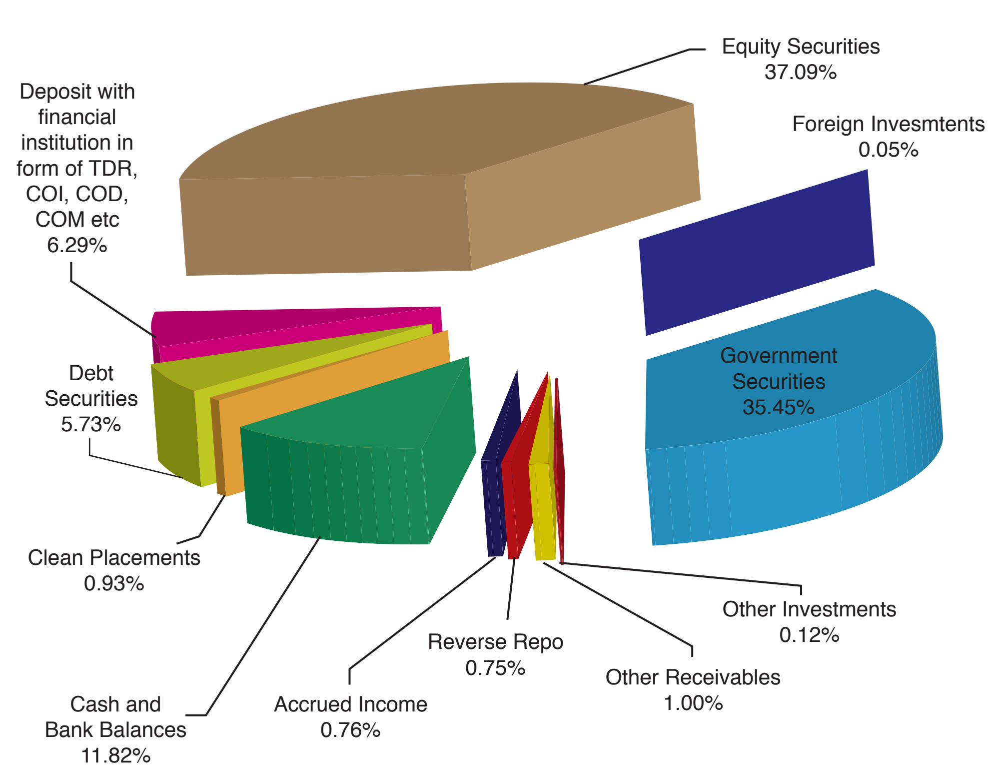
8.2.3 SPECIALIZED COMPANIES

8.2.3.1 NBFCs sector at a glance

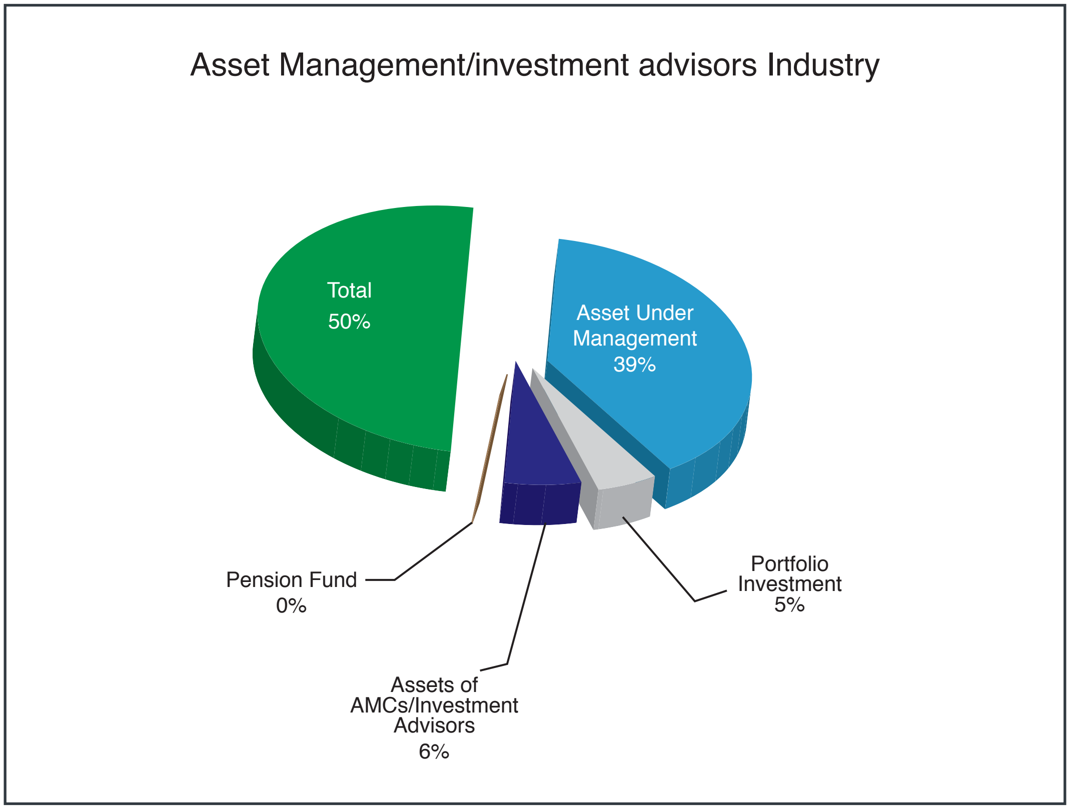
8.2.3.1.1 Mutual funds

Asset allocation of all mutual funds as on June 30, 2011	
Asset head	Rs in Million
Accrued income	2,222.02
Cash & bank balances	34,352.02
Clean placements	2,704.25
Debt securities	16,636.20
Deposit with financial institution in form of TDR, COI, COD, COM, etc.	18,270.87
Equity securities	107,790.39
Foreign investments	141.33
Government securities	103,014.52
Other investments	363.16
Other receivables	2,908.91
Reverse Repo	2,178.00
TOTAL	290,581.66

Asset Allocation of all Mutual Funds as on June 30, 2011



8.2.3.1.2 Asset management/Investment advisory industry



8.2.3.1.2.1 Nature of assets

Assets under management (nature-wise) - Rs in million		
Open End Funds	264,757	91%
Closed End Funds	25,826	9%

8.2.3.1.2.2 Quality of assets

Assets under management (nature-wise) - Rs in million		
Gross Assets	298,103	100.00%
Classified Assets	7,521	2.52%
Provision Against Classified Assets	5,645	1.89%

8.2.3.1.2.3 Position of Unit holders

Position of unit holders	
Total number of unit holders/investors	138,423
Percentage of units held by individuals(open end funds)	12.50%

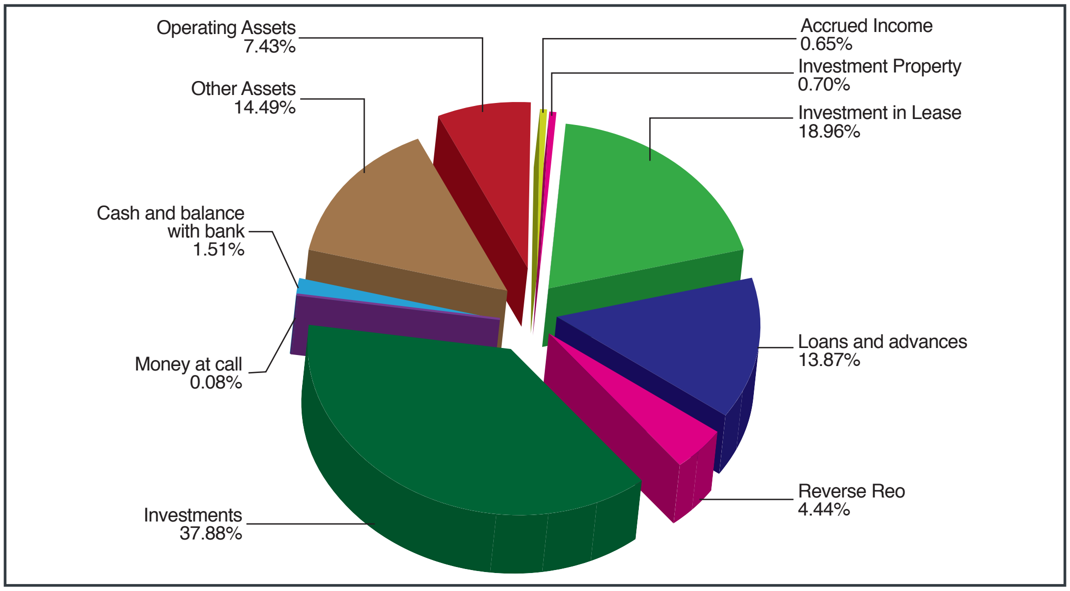
8.2.3.1.3 Brief overview of investment banks, leasing and housing finance sectors

S.No.	Name of NBFC	Nature of Business		
		Investment Finance Services	Leasing	Housing Finance Services
01	Asian Housing Finance Limited			√
02	Escorts Investment Bank Limited	√		
03	First Credit & Invest. Bank Limited	√		
04	First Dawood Investment Bank Limited	√	√	
05	Grays Leasing Limited		√	
06	IGI Investment Bank Limited	√	√	
07	Invest Capital Investment Bank Limited	√	√	
08	NBP Leasing Limited		√	
09	Orix Leasing Pakistan Limited.		√	
10	Pak Gulf Leasing Company Limited		√	
11	Saudi Pak Leasing Co. Limited.		√	
12	Security Investment Bank Ltd.	√		
13	Security Leasing Corp. Ltd.		√	
14	Sigma Leasing Co. Ltd.		√	
15	SME Leasing Limited		√	
16	Standard Chartered Leasing		√	
17	Trust Investment Bank Limited	√	√	
TOTAL		7	13	1

8.2.3.1.4 Investment banks

Investment Banks	Rs in Million
Total Assets	24,673
Non-Performing Assets	5,681
Non-Performing Assets as % of Gross Total Assets	21.0%
Equity	4,354
Total Liabilities	20,423
Total Deposits	5,857
Sector Leveraging (Times)	4.33

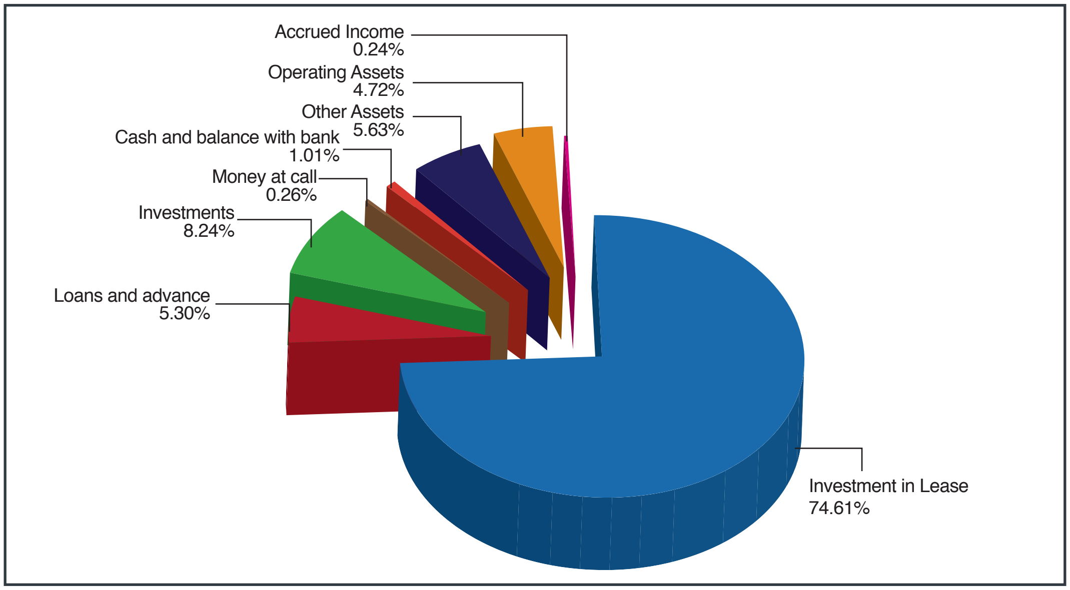
8.2.3.1.4.1 Investment banks details



8.2.3.1.5 Leasing companies

Leasing Companies	Rs in Million
Total assets	33,525
Non-performing assets	5,909
Non-performing assets as % of Gross total assets	16.4%
Equity	5,021
Total liabilities	28,451
Total deposits	4,260
Sector leveraging (Times)	3.97

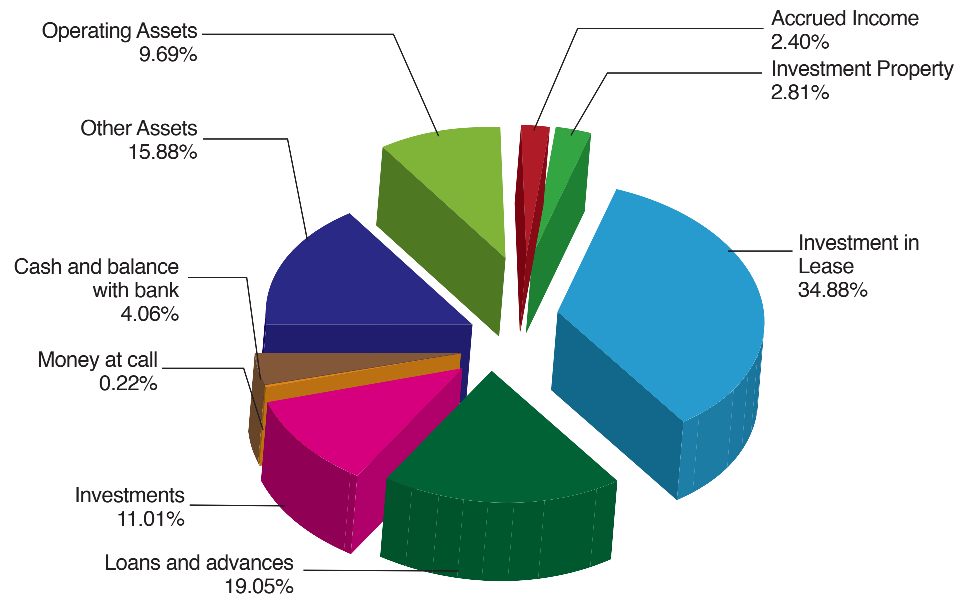
8.2.3.1.5.1 Leasing companies details



8.2.3.1.6 Modarabas

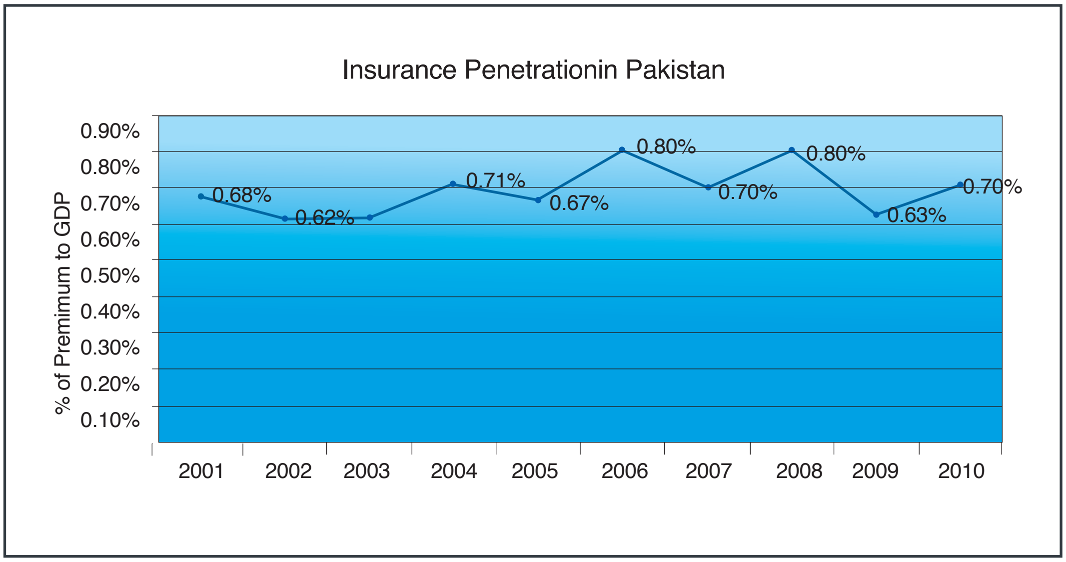
Modarabas	Rs in Million
Total Assets	26,392
Non-Performing Assets	3,324
Non-Performing Assets as % of Gross Total Assets	11.7%
Equity	11,561
Total Liabilities	13,893
Total Deposits	4,632
Sector Leveraging (Times)	1.05

8.2.3.1.6.1 Modarabas details

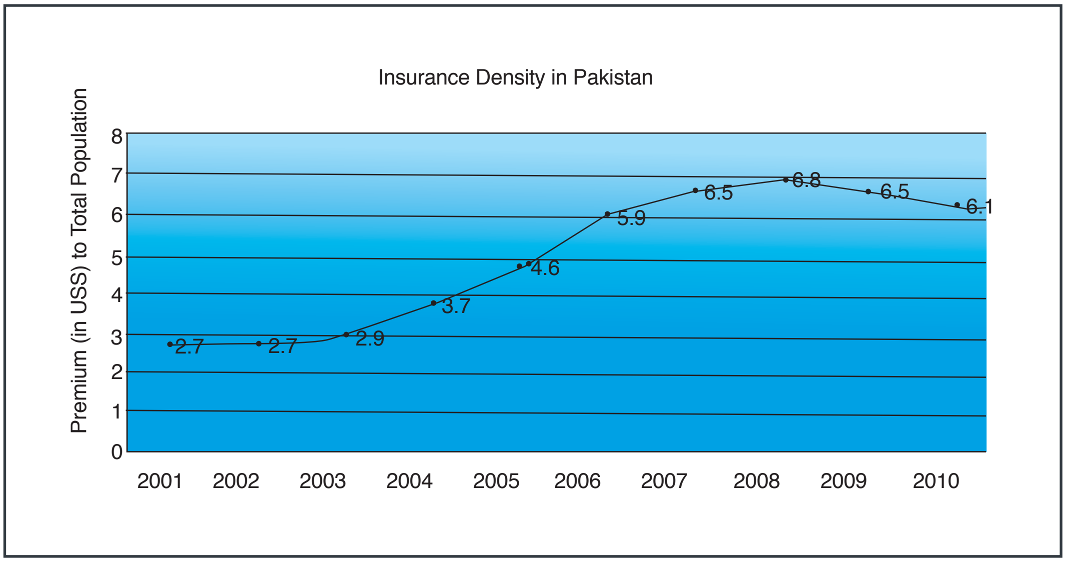


8.2.4 INSURANCE

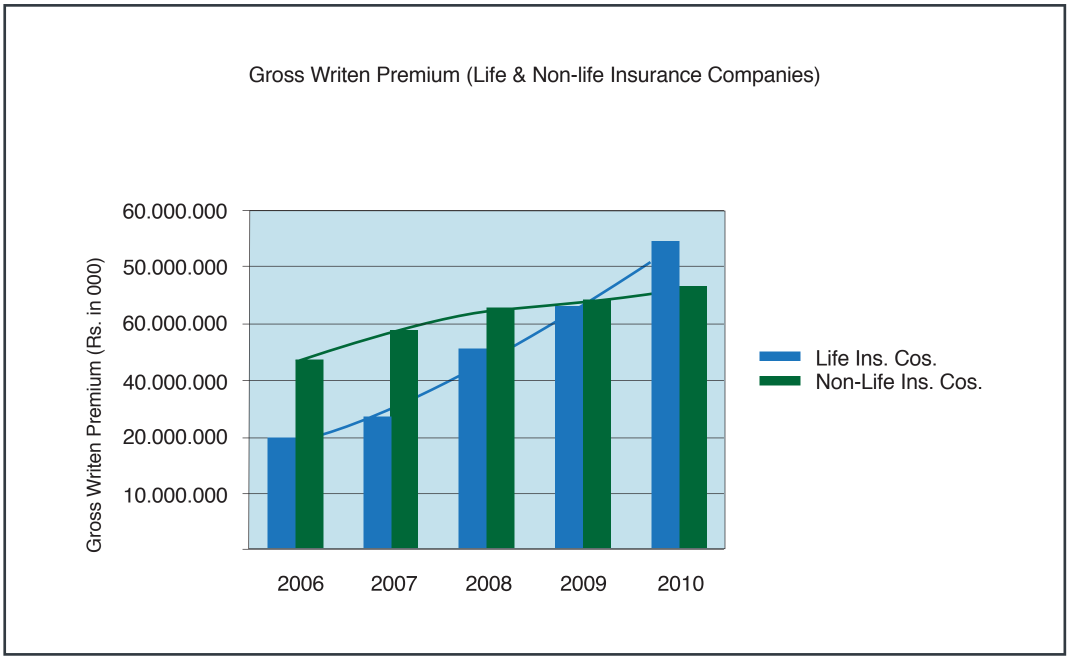
8.2.4.1 Insurance penetration



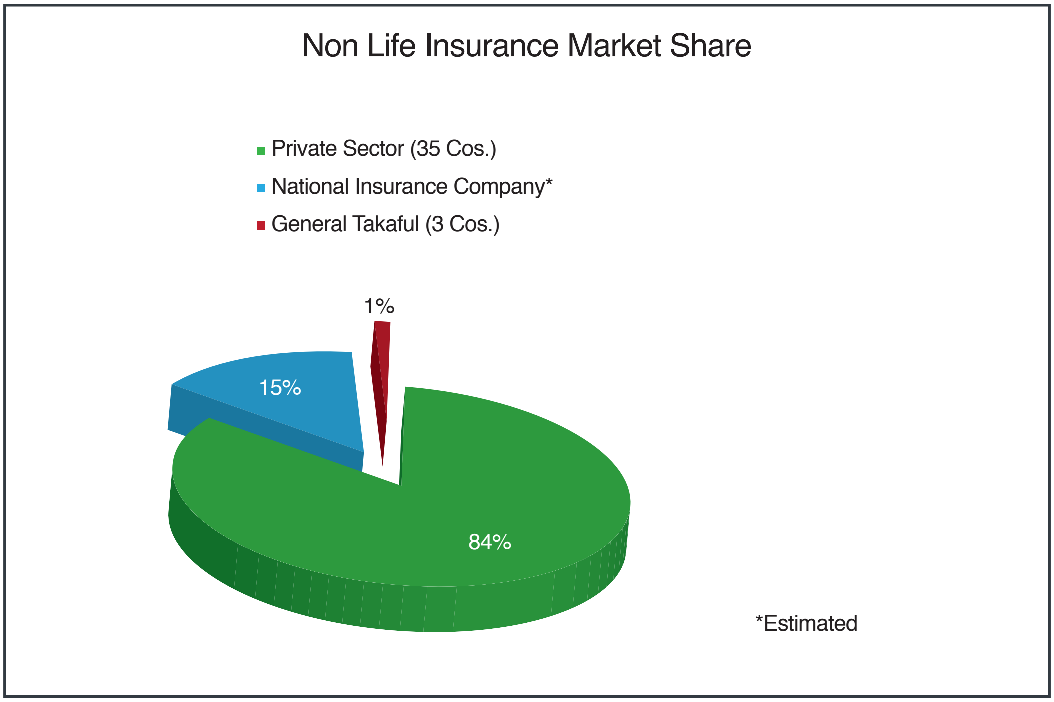
8.2.4.2 Insurance density



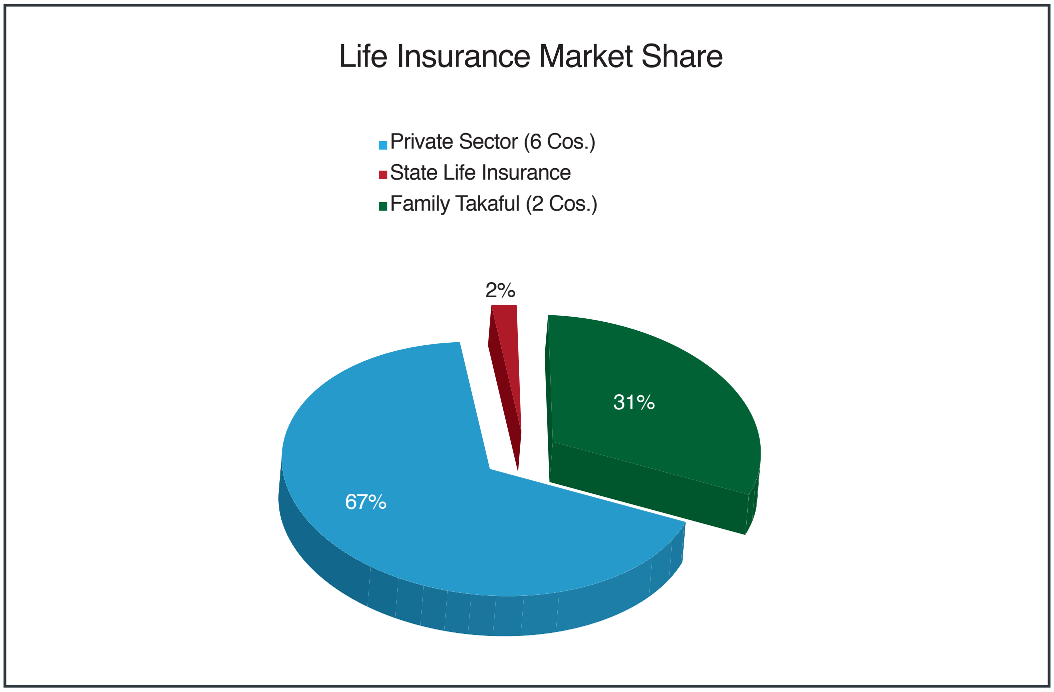
8.2.4.3 Gross written premium



8.2.4.4 Non-life insurance



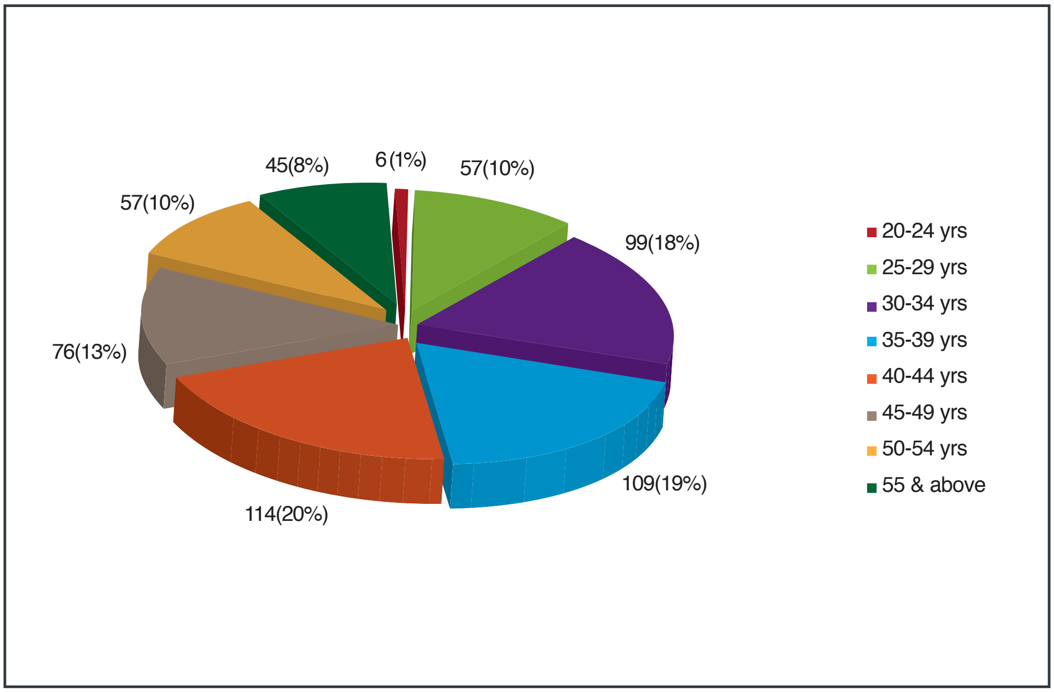
8.2.4.5 Life insurance



8.2.5 HUMAN RESOURCE AND TRAINING DEPARTMENT

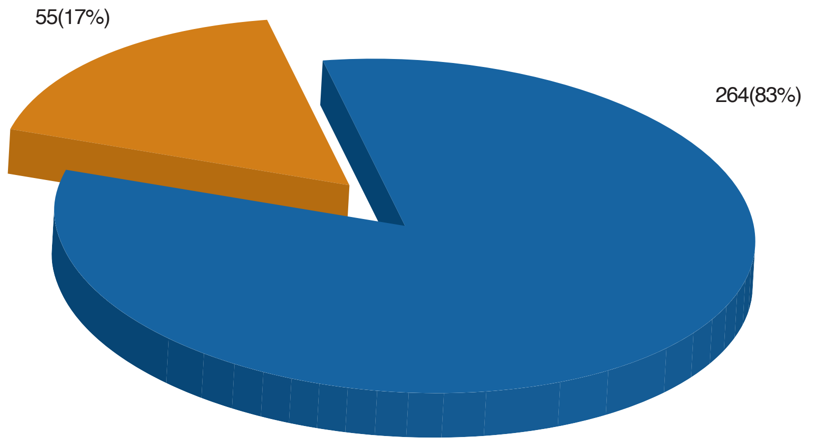
8.2.5.1 HR demographics

8.2.5.1.1 Overall age profile of SECP employees

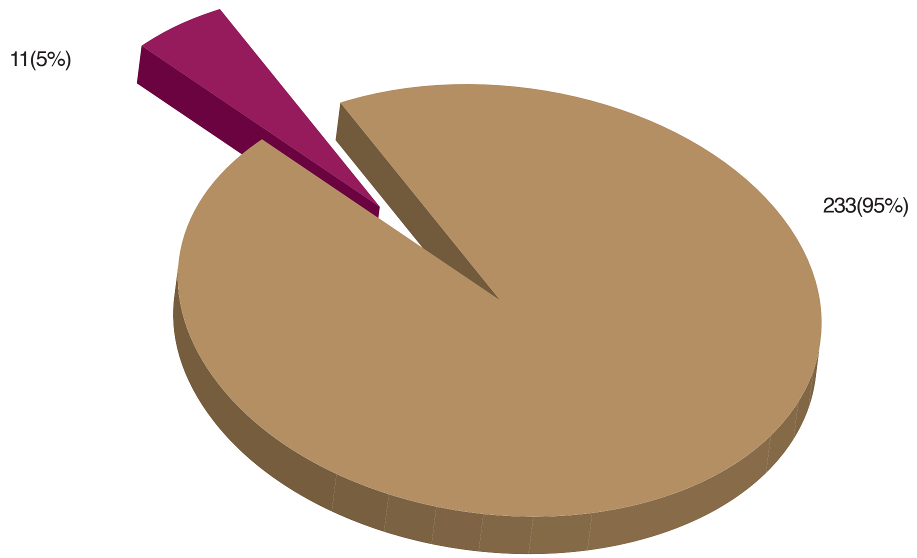


8.2.5.1.2 Gender position in SECP

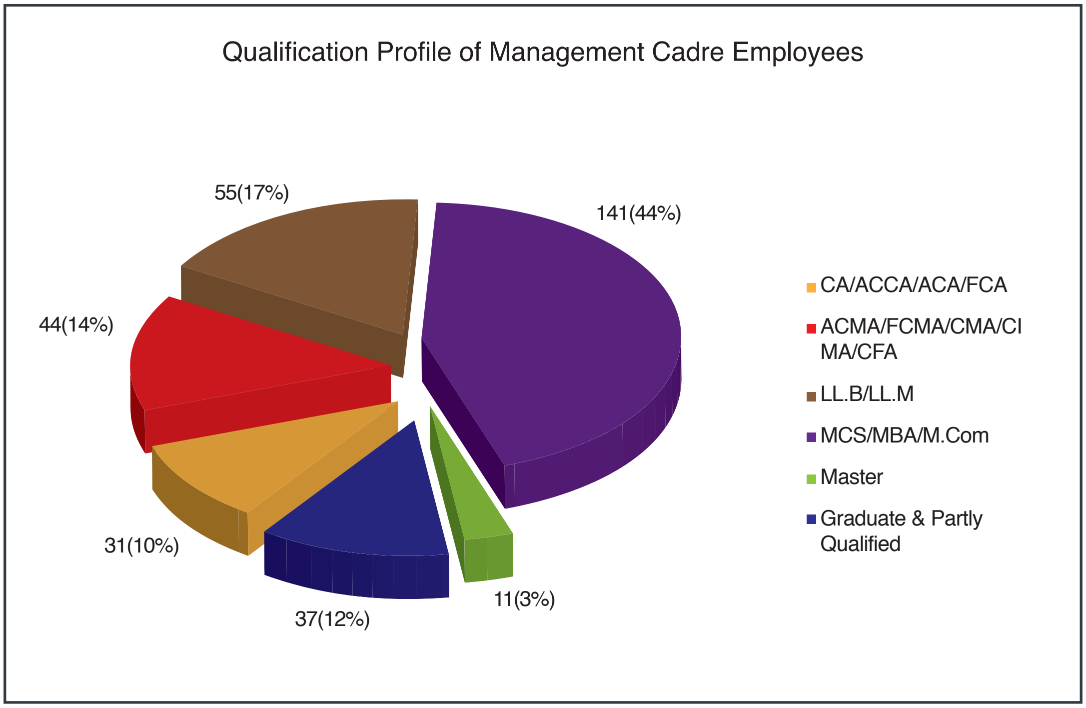
Gender-wise Profile of Management Cadre Employees

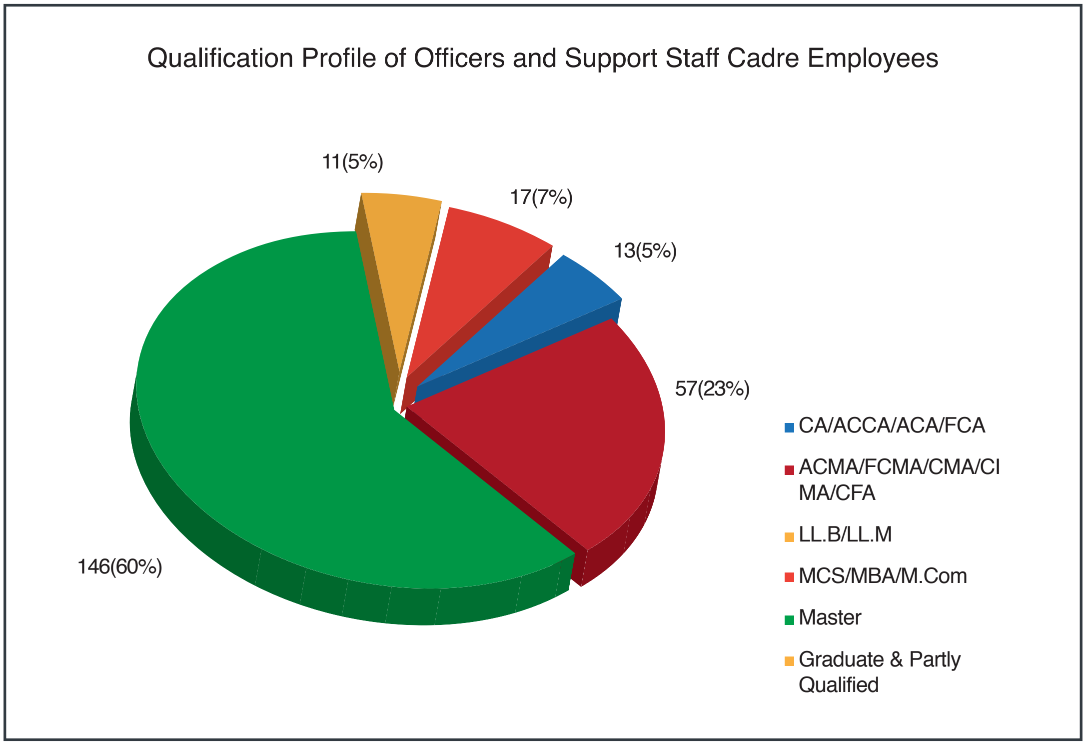


Gender-wise Profile of Officers and Support Staff Cadre Employees



8.2.5.1.3 Qualifications profile





8.3 Abbreviations and Acronyms

ACII: Associate from the Chartered Insurance Institute	FATF: Financial Action Task Force
ADB: Asian Development Bank	EOGM: Extraordinary General Meetings
AGM: Annual General Meeting	FMC: Fund Management Company
AMCs/IAs: Asset Management Company/Investment Advisors	FIU: Fraud Investigation Unit
AMLO: Anti-Money Laundering Ordinance	FMU: Financial Monitoring Unit
APG: Asia/Pacific Group on Money Laundering	FMGP: Financial (non-bank) Markets and Governance Program
APREA: Asian Public Real Estate Association	GDRs: Global Depository Receipts
ASOs: Authorized Surveying Officers	FRU: Foreign Relations Unit
BDS: Board Development Series	HRIS: Human Resources Information System
BOD: Board of Directors	HBFC: House Building Finance Corporation
BPM: Business Process Management	HOD: Head of Department
CCG: Code of Corporate Governance	IAIS: International Association of Insurance Supervisors
CDC: Central Depository Company of Pakistan Limited	IACCD: International Affairs, Communication and Coordination Department
CDD: Customer Due Diligence	IAP: Insurance Association of Pakistan
CDS: Central Depository System	IAIR: The International Association of Insolvency Regulators
CEW: Commodity Exchange Wing	
CFT: Combating Financial Terrorism	IASB: International Accounting Standards Board
CFS: Continuous Funding System	
CIS: Collective Investment Scheme	IAS: International Accounting Standard
CIW: Capital Issues Wing	ICAP: Institute of Chartered Accountants of Pakistan
CLA: Corporate Law Authority	
CLD: Company Law Division	IBA: Institute of Business Administration
CMA: Cost and Management Accountant	ICMAP: Institute of Cost and Management Accountants of Pakistan
COD: Certificate of Deposit COI: Certificate of Investment	ICM: Institute of Capital Market's
CNIC: Computerized National Identity Card	ICW: Investor's Complaints Wing
COT: Carry-over Trading	ICT: Islamabad Capital Territory
CRCS: Corporate Registration and Compliance System	IDF: Institutional Development Fund
	IFC: International Finance Corporation
CRO: Company Registration Office	IIRS: Insurance Industry Regulatory System
CRS: Companies Regularization Scheme	IFIs: Islamic Financial Institutions
DOW: Directors Orientation Workshop	IFSCs: Islamic Financial Services (Non-Banking) Companies
DFI: Development Finance Institution	
ECAP: Exchange Companies Association of Pakistan	IFRS: International Financial Reporting Standards
ECO: Economic Corporation Organization	
EGD: Electronic Government Directorate	IFRIC: International Financial Reporting Interpretations Committee
EMC: Emerging Market Committee	IFSB: Islamic Financial Services Board
EMC-WG3: Working Group-3 of Emerging Markets Committee	IFRS-4: International Financial Reporting Standard-4
EMD: Enforcement and Monitoring Department	IOPS: International Organization of Pension Supervisors

IPO: Initial Public Offering	OPAC: Online Public Access Catalogue
IOSCO: International Organization of Securities Commissions	PACRA: Pakistan Credit Rating Agency Limited
IS&T: Information Systems and Technology	OTC: Over-the-counter
IRC: Information Resource Centre	PE & VCF: Private Equity and Venture Capital Fund
ISMS: Information Security Management System	
IES: Islamabad Stock Exchange	PBA: Pakistan Banks Associations
ISO: International Organization of Standardization	PICG: Pakistan Institute of Corporate Governance
IVSC: International Valuation Standards Council	
KSE: Karachi Stock Exchange	PRCL: Pakistan Reinsurance Company Limited
KYC: Know Your Customer	PME: Pakistan Merchatile Exchange
LAP: Leasing Association of Pakistan	PSOA: Pakistan Society of Actuaries
LES: Lahore Stock Exchange	PSEB: Pakistan Software Export Board
LoU: Letter of Understanding	QCR: Quality Control Review
MIS: Management Information System	PSPD: Professional Services and Policy Division
MAP: Modaraba Association of Pakistan	
MLM: Multi Level Marketing	RBS: Risk Based Supervision
M&I: Monitoring and Inspection	QIBs: Qualified Institutional Buyers
MMoU: Multilateral Memorandum of Understanding	RMC: REIT Management Company
MMC: Modaraba Management Company	RTS: Resume Tracking System
MoU: Memorandum of Understanding	REIT: Real Estate Investment Trust
N&ICAU: National and International Cooperation Affairs Unit	SAOF: Sub-Account Opening Form
	SAFA: South Asian Federation of Accountants
MUFAP: Mutual Fund Association of Pakistan	
NBF: Non-Bank Financial	SCRS: Specialized Companies Return Submission System
NAV: Net Asset Value	
NBFCD: Non-banking Finance Companies Department	SCRA: Specialized Companies Return Analysis
NBFC: Non-banking Finance Company	SMC: Single Member Company
NBFI: Non-bank Financial Institution	SLIC: State Life Insurance Corporation
NBFC Rules: Non-banking Finance Companies (Establishment and Regulation) Rules, 2003	SME: Small and Medium Enterprise
	SOE: State-owned Enterprise
NCCPL: National Clearing Company of Pakistan Limited	SMEDA: Small and Medium Enterprises Development Authority
NICOP: National Identity Card for Overseas Pakistanis	SRO: Self-regulatory Organization
	SPVs: Special Purpose Vehicle
NEC: National Executive Committee	TABS: TA for Banking Sector Reforms
NOC: No Objection Certificate	TA: Technical Assistance
NIT: National Investment Trust	UIN: Unique Identification Number
NTCs: New Terms & Conditions (of employment)	TFC: Term Finance Certificate
OSS: Occupational Savings Schemes	VPS: Voluntary Pension System

8.4 How to contact us

8.4.1 How to lodge complaints

In order to create awareness within the stakeholders about the availability of vigilance mechanism and how the stakeholders can make best use of the facility, the SECP has placed the instructions on filing of a complaint on its website. The information and forms have also been made available at the CROs and the stock exchanges. Investors, entities and the public can forward complaint online through the links available at the SECP website. http://www.secp.gov.pk/ComplaintForm1.asp

There is a reporting mechanism in place whereby a track is kept of the status of complaints and queries received.

8.4.2 How to ask other questions

Investors, entities and general public can forward any queries or complaints on the following email addresses:

General Information: enquiries@secp.gov.pk

Complaints: complaints@secp.gov.pk

8.4.3 Our Offices

Head Office NIC Building, 63 Jinnah Avenue Islamabad Tel: 051-9207091-4, Fax: 051-9204915	
Karachi Fourth Floor, State Life Building No 2, Wallace Road, Off I.I. Chundrigar Road Tel: 021-99238269 Fax: 021-99213278 email: crokarachi@secp.gov.pk	Islamabad State Life Building 7, Blue Area Tel: 051-9206219 Fax: 051-9206893 email: croislamabad@secp.gov.pk
Multan 63-A Nawa-i-Waqat Building Second Floor, Abdali Road Tel: 061-9200920 Fax: 061-9200530 email: cromultan@secp.gov.pk	Lahore Third & Fourth Floor, Associated House 7 Egerton Road Tel: 042-99204962-6 Fax: 042-99202044 email: crolahore@secp.gov.pk
Peshawar First Floor, State Life Building The Mall Tel: 091-9213178 Fax: 091-9218636 email: cropeshawar@secp.gov.pk	Faisalabad Second Floor, Faisalabad Chamber of Commerce and Industry Building, East Canal Road Tel: 041-9230264 Fax: 041-9230263 email: crofaisalabad@secp.gov.pk
Sukkur House No 28-B, Hamdard Housing Society Airport Road Tel: 071-5630517 Fax: 071-5630517 email: croskr@hotmail.com	Quetta 382/3, (IDBP House), Hali Road Tel: 081-2844136 Fax: 081-2899134 email: croqta@qta.paknet.com.pk

Declaration of Investment as on December 24, 2010

Submitted to the Federal Government by Mr. Muhammad Ali, Chairman, SECP, in pursuance of sub-section (6) of section 16 of the Securities and Exchange Commission of Pakistan Act, 1997

Sr. #	Name of Company/Partnership firm	Nature of interest	No. of shares of face value of Rs10 each/extent of partnership
1	Allagro Real Estate (Private) Ltd.	Shareholding	1,368,300
2	Converge Technologies (Private) Ltd.	Shareholding	5,845,000
3	MAGM Holdings (Private) Ltd.	Shareholding	6,109,000
4	Inbox Business Technologies (Private) Ltd.	Shareholding	1,370,923
5	Multi Concerns & Enterprises (Private) Ltd.	Shareholding	2,500
6	Al-Shaheer Corporation	Partnership	10.5%
7	Meat One	Partnership	10.5%

“My message to you all is of hope, courage and confidence. Let us mobilize all our resources in a systematic and organized way and tackle the grave issues that confront us with grim determination and discipline worthy of a great nation.”

Quaid-e-Azam’s Message to the Nation on the occasion of Eid-ul-Azha - October 24, 1947

SECURITIES AND EXCHANGE COMMISSION
OF PAKISTAN

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