



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## NEWSLETTER

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### Task Force Constituted to Review Stock Market Situation

The Securities and Exchange Commission of Pakistan (SEC) constituted a Task Force to independently examine and review the stock market situation during the month of March 2005. The Task Force will suggest measures for the promotion of market stability, transparency, restoration of investor confidence and enhancement of investor protection.

The Task Force was headed by former Federal Tax Ombudsman and judge of the Supreme Court, Mr. Justice (retd.) Salim Akhtar and comprised of Dr. Mohammad

Zubair Khan, Mr. Shahid Hafiz Kardar and Mr. Sultan Allana as members and Mr. Adil Naeem Khan as secretary.

The Task Force would recommend regulatory and operational reforms to provide for efficient monitoring and accountability of market participants. It will also propose measures for strengthening and consolidating the regulatory regime, particularly with a view to enabling appropriate regulatory intervention, preventing systemic risk and promoting market stability.

### Draft Takaful Rules, 2005 Notified

The Federal Government notified and published draft Takaful Rules, 2005 for the conduct of Takaful operations in the country. The Rules were developed by a task force constituted by the SEC and were sent to the Ministry of Commerce for its approval and notification. The comments and suggestions of relevant stakeholders were sought on the draft rules.

Takaful, an Islamic alternative to conventional insurance is based on the concept of social solidarity, co-operation and mutual indemnification of losses of members. In Takaful or Islamic insurance, resources are pooled to help the needy participants. To carry out the Takaful business in Pakistan, permission under the relevant law is required. Further, aims and operations of Takaful business must not involve any element which is not in consonance with the injunctions of Islam as laid down in the Quran and Sunnah.

### Risk Management Measures to be Implemented

A meeting of the SEC and the Board of Directors of the three stock exchanges was held in Islamabad to discuss and review the status of implementation of various measures to strengthen risk management at the stock exchanges. The meeting was chaired by Dr. Tariq Hassan, Chairman, SEC.

Below are some of the decisions, which were reached during the course of the meeting:

- Distribution of retained profit has been reduced from 30 percent to 20 percent.
- Exposure of a member, at any point in time, in a single scrip or in a futures contract shall not exceed one percent of free float of each scrip or the number of contracts and shall be determined under a slab system, whichever is higher.

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## Religious Board for Modarabas holds First Meeting

The first meeting of the newly constituted Religious Board for Modarabas was held under the Chairmanship of Mr. Justice (retd.) Mian Mehboob Ahmed and attended by its members, Maulana Syed Zakar Hussain Sialvi and Dr. Sher Muhammad Zaman.

In the meeting, the three-member board considered the draft prospectus for floatation of a modaraba and proposals for adoption of new business clauses by various modarabas. The resumption of activities of the Modaraba Board is expected to boost the modaraba sector and would allow floatation of new modarabas.

## SEC Amends First, Third Schedules to Companies Ordinance

The SEC made amendments in the First and Third Schedules to the Companies Ordinance, 1984 (Companies Ordinance).

The First Schedule, containing sets of Memorandum and Articles of Association for different kinds of companies, had not been amended or reviewed since the promulgation of the Companies Ordinance. The SEC approved certain amendments in the existing Schedule, mainly to bring it in conformity with the relevant provisions of the Companies Ordinance and to incorporate other suitable changes.

In form-A of the Third Schedule, the column for the date of appointment of directors was not mentioned in item 19 of part A. An amendment to insert the column for the date of appointment of directors was accordingly made by the SEC.

## Enforcement Actions

The SEC took appropriate actions against companies that were found to be violating various legal provisions; six companies were penalised for non/late holding of annual general meetings (AGMs) and non/late circulation of quarterly accounts. Another company was penalised for non-transfer of amount payable to the employees' provident fund; the company was also directed to repay the entire outstanding amount to the fund.

In addition, four companies were advised to circulate revised notices of extra ordinary general meetings and AGMs to shareholders as the information provided by them, through the notices, was insufficient to enable shareholders to understand the nature of transactions and take a prudent decision.

## Growth of Corporate Sector

The SEC has registered 268 companies during the month of April 2005 showing an increase of 15 percent in registration over the corresponding period last year.

Of the total registered companies during the month, 263 were companies limited by shares including four public unlisted, 250 private and nine single member companies. Apart from these, two foreign companies and three not-for-profit associations were also registered during the month.

The Lahore Company Registration Office (CRO) registered the highest number of 114 companies, followed by Karachi and Islamabad CROs with seventy-two and fifty-eight new incorporations, respectively. Faisalabad, Multan, Peshawar and Sukkur CROs registered nine, three, eleven and one company, respectively.

Aggregate authorized capital and paid-up capital of the 263 limited by shares companies amounted to Rs. 4,202.4 million and Rs. 254.782 million, respectively. Furthermore, thirty-eight companies raised their authorized capital during the period with an increment of Rs. 13,281.6 million.

The most flourishing sector in terms of number of new registration was the trading sector, wherein thirty-six companies were registered.

The 268 incorporations during the month brought the SEC's total portfolio of registered corporate sector to 45,609 companies.

### *CRO wise incorporations during April 2005*

No.	CRO	No. of Companies
1	Lahore	114
2	Karachi	72
3	Islamabad	58
4	Faisalabad	9
5	Multan	3
6	Peshawar	11
7	Sukkur	1

## Deposits with Taj Company Substantially Settled

The joint official liquidators of the defunct Taj Company Limited submitted their final report to the Honourable Company Judge of the Lahore High Court. The depositors of the company have so far been paid a total sum exceeding Rs. 9,183 billion. Claimants with deposits up to Rs. 99,900 have been paid in full, whereas those with deposits beyond Rs. 100,000 have been paid 80 percent of their principal amount.

Earlier, the Lahore High Court had appointed three liquidators. The court relieved two liquidators, Justice (retired) Abdul Hafeez Cheema and Brig. (retired) Rahat Amanullah Bhatti of their responsibilities and services of only one liquidator, Syed Zafar Ali Shah were retained in order to finalise the liquidation process.

## Risk Management Measures to be Implemented

*Continued from P 1*

- Netting of exposure in the ready and futures market shall not be allowed for the purpose of capital adequacy.
- Pre-trade Verification System shall be put in place at the Karachi Stock Exchange and collection of mark to market losses in futures market will be done twice a day.
- Deposit against exposures exceeding Rs. 200 million in futures market shall be collected in cash and the existing slab for margin collection for futures market will be revised upward.
- Total exposure of a member in futures market shall not exceed ten times of the net capital balance of the member.
- Futures market will be cash settled only and the methodology to calculate the closing price (striking price) of the futures contract shall be devised based on international best practices.
- Circuit breaker on both sides will be five percent or Rs. 1.00, whichever is higher.
- Associate membership facility shall be extended to brokers in ready market whereby they will settle their trades directly with National Clearing Company and deposit their margins directly to the exchange.

## Company Mortgages and Charges Guide Published

The SEC has initiated a series of guidance booklets for public awareness. The latest of the series is the Company Mortgages and Charges Guide.

This booklet will help companies or interested parties to file the particulars of mortgage or charge properly and in time. The booklet can be obtained from SEC head office and its CROs and is also available on its website.

## Training Workshop for Registrars

The SEC arranged a six-day Professional Training Workshop for its Registrars at the Institute of Business Administration (IBA), Karachi. A total of twenty-five Registrars attended the workshop.

The week-long training programme covered a diverse range of topics, focusing on company law and regulation, financial accounting and analysis and regulatory role management.

Comments, queries and suggestions about this newsletter may please be addressed to:

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