



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NEWSLETTER

Volume V, Issue VIII August 2005

SEC and International Finance Corporation Sign MoU

The Securities and Exchange Commission of Pakistan (SEC) and the International Finance Corporation (IFC), the private sector arm of the World Bank, signed a Memorandum of Understanding (MoU) in Islamabad to promote and support corporate governance reforms in Pakistan.

The IFC has offered its support to the Pakistan Institute of Corporate Governance (PICG) in the following five areas:

- Setting up training and certificate programs on corporate governance for directors, managers and company secretaries;
- Building research and development capacity to conduct surveys and issue publications and best practice manuals;
- Developing and providing consulting and advisory services on corporate governance to Pakistan's banks and corporations;



Chairman SEC, Dr. Tariq Hassan and Acting Director of the International Finance Corporation, Mr. Michael Essex during the MoU signing ceremony.

Continued on P 4

Inside this issue

*SEC Briefs NA
Committee on
Stock Market
Situation* 2

*Committee to
Conduct
Feasibility of
Exchange-Traded
Derivatives in
Pakistan* 3

*IMF Delegation
Visits SEC Head
Office* 4

Voluntary Pension System Launched

The SEC organised a one-day conference in Karachi to launch the Voluntary Pension System (VPS). Chairman SEC, Dr. Tariq Hassan inaugurated the well-attended conference and highlighted key features of the VPS and its likely social and economic impacts. Other speakers were prominent professionals from actuarial, accounting and taxation, asset management, and other related fields.

Speakers touched on various aspects of VPS, like eligibility criteria and tax implications for participants/employers, other occupational retirement schemes, development of annuity products, and role of trustees and credit rating agencies. Overview of international pension practices and comparison with Pakistan, particularly with regard to

VPS, was provided by an international expert.

During the conference, speakers and participants recommended that the eligibility criteria for participating in VPS should be extended to those who are members of other pension schemes and those who do not have National Tax Numbers (NTNs). It was also proposed that the benefits in shape of an annuity should be exempt from tax so that VPS is compatible with other occupational schemes.

The participants of the conference were told that interaction with stakeholders would be made a regular activity.

Alfalah Securities Penalised for Insider Trading

The SEC penalized Alfalah Securities (Pvt.) Limited for involvement in insider trading in the shares of Pakistan Telecommunications Company Limited (PTCL) on behalf of its parent company, Bank Alfalah Limited.

The SEC found Alfalah Securities (Pvt.) Limited guilty of acting upon insider, privileged information to trade in the shares of PTCL for and on behalf of its parent company. As a result, the parent company made a profit of Rs. 72,150 (at the rate of Rs. 0.30 per share) by purchasing and subsequently selling 240,500 shares of PTCL on 11 January 2005.

The SEC issued a show cause notice to the brokerage company on 7 July 2005 in response to the information contained in its morning note, published on 11 January 2005. Contents of the morning note pointed to the fact that the brokerage company had obtained privileged, price-sensitive information from a source within PTCL regarding the reversal of provisioning of Access Promotion Contribution Fund (APC) revenues, which would result in an increase in the revenues of PTCL. As indicated by the brokerage company in its morning note, the share price of PTCL increased from the low of Rs. 46.85 on 10 January 2005 to close at Rs. 49.60 on 10 January and Rs. 53.30 on 11 January 2005, depicting an increase of Rs. 6.45 or 13.76 percent.

Such trading on part of the brokerage company was in violation of the legal provisions, which clearly prohibits a person from directly, or indirectly, dealing in the shares of a listed company on the basis of information which is not

generally available. Further, the actions of the brokerage company were in violation of the code of conduct for brokers, as stipulated under section 8(iv) of the Brokers and Agents Registration Rules, 2001. Accordingly, a fine of Rs. 100,000 was imposed on Alfalah Securities (Pvt) Limited.

SEC Penalises Nine Brokerage Firms

The SEC penalized nine brokerage firms of the Karachi Stock Exchange (KSE) for failing to maintain high levels of integrity and fairness in the conduct of their businesses and for indulging in improper conduct on the stock exchange. These companies were found to be engaged in, or have allowed trades in the market, merely for the purpose of creating a false impression of trading activity in particular scrips (wash trades).

The brokerage firms were issued show cause notices to explain their positions. After completion of due process, the SEC imposed an aggregate penalty of Rs. 525,000 on these firms. The details are given as under:

These brokerage companies/firms have been asked to deposit their fines, no later than 30 (thirty) days from the date of issuance of the respective orders.

No.	Brokerage Firm	Amount of fine
1	DJM Securities	25,000
2	M. S. Securities	25,000
3	Time Securities	25,000
4	First National Equities	50,000
5	M Nadeem Abdul Ghaffar	50,000
6	Taurus Securities	50,000
7	Worldwide Securities	100,000
8	Moosani Securities	100,000
9	Sherman Securities	100,000

SEC Briefs NA Committee on Stock Market Situation

The SEC attended the meeting of the National Assembly's Standing Committee on Finance and Revenue and gave an in-depth presentation on the causes of the rise and fall of the stock market in March. It also highlighted SEC's observations on the report of the task force it had constituted in this regard. The measures taken by SEC to ensure wider interest of the market and investors were identified during the presentation and ensuing discussion.

The Chairman SEC, Dr. Tariq Hassan highlighted the steps taken for promoting investor confidence and enhancing integrity of the market. He also pointed out that over the last few years, SEC had introduced wide ranging capital market reforms in the fields of risk

management, governance, transparency and investor protection. He said that, currently, second generations reforms were underway, which included demutualization of exchanges, phasing out of COT/badla and closure of group accounts (which was successfully achieved on 30 April 2005). All such steps are aimed at bringing structural reform in the markets so as to minimize the possibility of abuse.

The Standing Committee was briefed about the actions and further investigation into cases of market abuse initiated by the SEC. Dr. Hassan assured the Standing Committee that SEC was making all possible efforts to conduct effective investigations and enforcement in accordance with the due process of law.

Continued on P 4

Committee to Conduct Feasibility of Exchange-Traded Derivatives Market in Pakistan

The SEC formed a committee to conduct feasibility of the introduction of exchange-traded derivatives market in Pakistan. The committee is headed by Mr. Ali Ansari and comprises Mian Asif Said, Mr. Imran Iqbal Janjua, Mr. Imran Kamal, Mr. Nihal Cassim and Mr. Arif Mian as members. Mr. M. Rashid Safdar Piracha will act as secretary to the committee.

The committee has been given the mandate to research the factors that led to the emergence of exchange-traded derivatives in the international (developed and emerging) marketplace and what benefits these markets gained as a result. It will study and recommend whether trading of exchange-traded derivatives is suitable for the Pakistani capital market in its present form and aspects such as market infrastructure, systems, risks, investor interest and education, users of the derivatives products and other key matters will be covered.

The likely benefits to the Pakistani capital market, including suitability of exchange-traded derivatives as an alternative to badla financing will also be covered in the study. The committee would devise and recommend a plan to enable successful introduction of exchange-traded derivatives in Pakistan.

The committee is authorized to add other ancillary items associated with the key objectives mandated by the SEC and may also co-opt such members as it may deem fit. The committee would submit its report within sixty working days from the date of its first meeting.

Adhesive Stamp Made Available at Quetta, Islamabad CROs

The SEC made available at its Quetta and Islamabad Company Registration Offices (CROs) the adhesive stamps required for registration of memorandum and articles of association of a new company and for copying of any document. Previously, the promoters of companies had to obtain stamps from the treasury office after depositing the amount of stamp duty in the National Bank of Pakistan or the State Bank of Pakistan. This process usually took two to three days, involving several visits to the treasury office and the bank. The promoters were, as a result, facing a lot of practical difficulty in fulfilling the requirement. Availability of adhesive stamps at CROs would greatly facilitate promoters.

The stamp duty is applicable only in the provinces of Balochistan and Sindh and in the Islamabad Capital Territory (ICT). The provincial governments of Punjab and NWFP have abolished the stamp duty on registration of memorandum and articles of association of companies upon recommendation of the SEC.

SEC Sets Up Advisory Committee to Formulate Medium Term Strategy

The SEC set up an advisory committee to formulate the medium term plan/strategy for regulation and development of corporate and financial (non-banking) sectors. The committee held its first meeting in Karachi.

Members of the committee include respective chairmen of the three stock exchanges, heads of Insurance Association of Pakistan, Mutual Funds Association of Pakistan, Investment Banks Association of Pakistan, Leasing Association of Pakistan, Modaraba Association of Pakistan, managing directors/CEOs of the National Commodity Exchange Limited and Central Depository Company of Pakistan Limited, and presidents of the Federation of Pakistan Chamber of Commerce and Industry, Overseas Investors Chamber of Commerce and Industry, Institute of Chartered Accountants of Pakistan, Institute of Cost and Management Accountants of Pakistan, Institute of Corporate Secretaries of Pakistan, and Institute of Chartered Secretaries and Managers of Pakistan.

The advisory committee members lauded the initiative of the SEC to develop a five-year medium-term strategy based on the blueprint it had earlier developed for regulation and development of sectors under its purview. Chairman SEC, Dr. Tariq Hassan said that the objectives of regulation should in no way stifle the development of the market adding that the medium term strategy should focus equally on both elements.

Adjudication of Cases

The Registrars of Companies at the SEC took appropriate actions against 192 companies for violations of different legal provisions. The violations mainly pertained to delay in filing of annual accounts, various statutory returns and documents with the Registrar, including late filing of annual returns on Forms A/B, Forms-29, circulars for further issue of capital, returns of allotment, statements of beneficial ownership of listed securities and notices of special resolution passed by

Continued on P 4

IMF Delegation Visits SEC Head Office

A high level delegation of the International Monetary Fund (IMF) visited the SEC head office and met its Chairman Dr. Tariq Hassan, Commissioner (Securities Market) Mr. Shahid Ghaffar and other senior officials.

The IMF delegation, which was headed by Mr. Mohsin S. Khan, Director, Middle East and Central Asian Region, discussed with the SEC officials various issues relating to the capital market. The SEC made a detailed presentation on Pakistan's capital market and the reform measures it had taken to improve risk management and investor protection. Issues relating to the market events of March 2005 as well as the actions taken by SEC were discussed.

The delegation was also updated on the status of COT/badla financing phase out and demutualization of the stock exchanges as per international best practices. The delegation members appreciated the steps being taken by the SEC for investor protection and bringing transparency in the market.

SEC and International Finance Corporation Sign MoU

Continued from P 1

- Raising awareness of corporate governance practices via conferences, seminars and roundtables;
- Providing policy advice to the government and regulator on legal and regulatory reforms relating to corporate governance.

The Chairman SEC, Dr. Tariq Hassan said that the

project would help the PICG assume its role of being a leading provider of knowledge and awareness related to corporate governance practices in the country.

IFC Acting Director for the MENA region, Michael Essex said that what makes this joint initiative so unique is that it would attempt to turn a short-term technical assistance project into a sustainable structure that would be able to provide quality corporate governance services.

SEC Briefs NA Committee on Stock Market Situation

cont. from page 2

The Standing Committee of the National Assembly decided to constitute a five-member sub-committee to review the observations and recommendations of the task force and to suggest amendments in the relevant laws so as to strengthen SEC's monitoring and enforcement capabilities.

Adjudication of Cases

Continued from P 3

companies. A total of 113 cases pertained to late notification of election and appointment of directors and other officers on Form-29 by corporate entities.

Of the 192 cases, the Registrar at CRO Lahore adjudicated 132 cases while CROs at Karachi and Islamabad adjudicated twenty-nine and two cases, respectively. Remaining CROs adjudicated twenty-one cases in aggregate. Registrar at the head office in Islamabad adjudicated eight cases.

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

Media and Publication Unit, SEC

NIC Building, 63-Jinnah Avenue, Blue Area

Islamabad, Pakistan

Ph. +92-51-9218593, 9207091-3

Fax. +92-51-9205692

Email. sec.news@secp.gov.pk

www.secp.gov.pk