



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## NEWSLETTER

Volume V, Issue I January 2005

### Roundtable Conference with State-owned Enterprises Held

A round table meeting with Chairmen and Chief Executive Officers (CEOs) of listed public sector companies was held at the head office of the Securities and Exchange Commission of Pakistan (SEC) in Islamabad. The Chairman SEC, Dr. Tariq Hassan chaired the meeting.

The participants of the meeting discussed the need for extending principles of good corporate governance to public sector enterprises, whether listed or non-listed. It was urged that the authority and autonomy of Board of

Directors of state-owned enterprises should be strengthened in line with practices of good corporate governance practices. The participants also discussed the role of nominee directors and separation of offices of CEO and Chairman.

The participants were briefed about the recently established Pakistan Institute of Corporate Governance, which will provide training to directors and other executives and raise awareness on corporate governance

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### Task Force on Corporate Tax Policy Meets

The Task Force on Corporate Tax Policy, jointly formed by the SEC and the Central Board of Revenue (CBR) held its first meeting in Karachi. The Task Force was mandated to study and rationalise the tax structure for corporates in order to encourage corporatisation and progressive development of the sector.

The Terms of Reference of the Task Force include:

- Reviewing the existing legal and policy regime for corporate tax to develop an effective corporate tax policy conducive to progressive development of corporate sector.
- Reviewing the applicable tax rates and regime for suggesting tax reforms.
- Reviewing the procedures of tax assessment and collection and matters related to it.
- Suggesting tax policy and administration measures that provide level playing field for corporate and non-corporate sectors.
- Suggesting viable tax administration measures for implementation of the recommendations.

Head of the Task Force, Mr. Justice (Retd.) Saleem Akhtar chaired the meeting.

### Mr. Rashid I. Malik Joins SEC as Commissioner

The Federal Government has appointed Mr. Rashid I. Malik as Commissioner of the SEC.

Mr. Malik brings with him over thirty years of professional and working experience of business operation, management, finance and accounting. He is a qualified Chartered Accountant from England and Wales and is also a fellow of the Institute of



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## Nepalese Capital Market Experts Seek Cooperation from SEC

A capital market delegation of Nepal visited the head office of the SEC and met its Chairman, Dr. Tariq Hassan. The delegation was led by Mr. Krishna Gyawali, Joint-Secretary, Ministry of Finance (MoF), Nepal and included Dr. Gyanu Raja Shrestha, Under-Secretary, MoF, Mr. Deepak Raj Kafle, Chairman, Securities Board of Nepal (SEBON) and PIT-1, Mr. Gyan Darsan Udas, Company Registrar, Mr. Niraj Giri, Deputy Director, SEBON and Mr. Bijaya Gurung, Director, NEPSE.

The Chairman SEC apprised the delegation of the steps taken by SEC as the apex regulator of the capital market and corporate sector. He informed them of the reforms measures taken to curb financial frauds and restore investor confidence. The delegation was given a detailed presentation on the scope and structure of the SEC, the working of stock exchanges, the stock market reforms, risk management measures, governance measures and capital market development.

The delegation highly appreciated the reform measures initiated by the SEC and sought its cooperation in pursuing capital market reforms in their country.

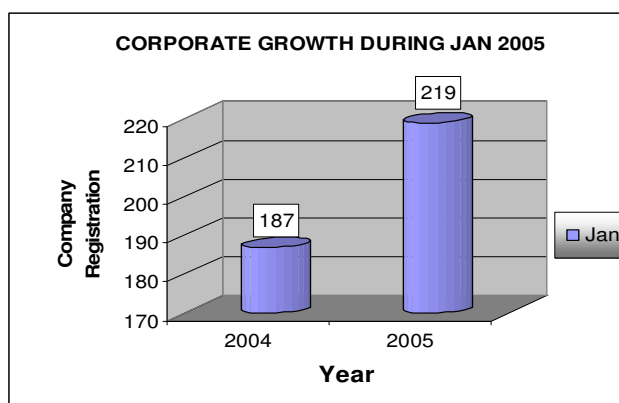
## Amendments in Fourth Schedule Clarified

Pursuant to amendments made in the Fourth Schedule to the Companies Ordinance, 1984, the SEC issued necessary clarifications to address the practical difficulties being faced by listed companies and their subsidiaries.

It was clarified that listed companies and their subsidiaries, which were carrying deferred costs in their financial statements as on 5 July 2004, might continue to treat such costs according to the requirement of the substituted Fourth Schedule. After 5 July 2004, such companies were not allowed to record any further deferred cost in their financial statements.

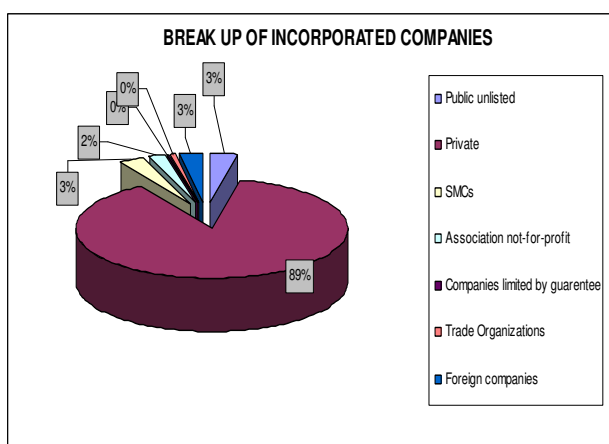
Regarding capitalization of exchange gain or loss, the listed companies and their subsidiaries, which had a policy of capitalizing exchange fluctuations and which had outstanding liabilities for foreign currency loans as on 5 July 2004, were allowed to capitalize such fluctuations for further three years, up to 30 September 2007. In case of any foreign currency loan contracted on or after 5 July 2004, the aforesaid accounting treatment would not be permissible.

## Growth of Corporate Sector



The SEC has registered 219 companies during January 2005, exhibiting an increase of about seventeen percent over the corresponding period of last year. Among the total registered companies, 207 are limited by shares, which include seven public unlisted companies, 193 private companies, seven single member companies. In addition, six are foreign companies, four are not-for-profit associations while one company is limited by guarantee and another one is a trade organization. The Company Registration Office (CRO) Karachi incorporated eighty companies, while Lahore and Islamabad CROs registered seventy-six and forty-four companies respectively.

Total authorized capital of companies limited by shares amounted to Rs. 3,382.70 million. Authorized capital of private companies was Rs. 2,762.9 million while public companies had total authorized capital of Rs. 597.5 million. The most flourishing sector in terms of number of new registration was the services sector, wherein thirty-nine companies were registered.



## Training Workshop for Registrars held in Karachi

The SEC organized a two-day in-house training workshop in Karachi, which was attended by the Registrars of the Karachi, Quetta and Sukkur CROs.

During the course of the workshop, enabling laws and regulations for corporatization of Small and Medium Enterprises (SMEs) were discussed and the overall facilitative role of the CROs was highlighted. Similar training workshops would be held for the remaining CROs of the SEC.

## Companies Easy Exit Scheme Concludes

The Companies Easy Exit Scheme (CEES), re-launched by the SEC in March 2004, concluded on 31 December 2004.

The scheme offered easy exit facility to dormant private limited, public unlisted and limited by guarantee companies that had no assets or liabilities and were not carrying on any business. Such companies were given the opportunity to voluntarily get their names struck off the register of companies. A total of 1,519 companies approached the registrars concerned for seeking exit in the prescribed manner.

## Seminar on Corporate Fraud held in Lahore

The Institute of Chartered Accountants of Pakistan (ICAP) held a seminar in Lahore on Corporate Fraud - Responsibilities of the Board, Management and Auditors to Prevent and Deter Financial Crimes.

Addressing the participants of the seminar, the Chairman SEC, Dr. Tariq Hassan, urged directors, managers and auditors to closely understand a broad cross-section of corporate frauds in order to carry out their fiduciary responsibilities in an effective manner.

Dr. Hassan added that segregation of duties at all levels is important to deter corporate fraud. He urged internal and external auditors and management and board of directors to supplement each other in ensuring transparency and accountability.

He said that the SEC has taken timely and effective actions against forex companies, international brokerage houses and multi-level marketing and pyramid schemes for engendering investor confidence and weeding out fraudulent elements from the corporate sector.

The SEC Chairman further said that efforts were

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## Penalties Imposed on Companies

Vigilant monitoring and enforcement by the SEC has substantially improved the manner in which companies' affairs are conducted.

During the month, the SEC penalized the CEO and directors of a company for making unauthorized investments in its associated companies.

In 2003, the company made investment in its associated companies without obtaining prior approval of shareholders and ignoring the disclosure requirements.

Furthermore, the SEC imposed a fine on the CEO and directors of another company for failure to prepare certificates of its allotted shares within the prescribed period. In terms of the Companies Ordinance, 1984, all listed companies are required to prepare certificates of allotted shares within ninety days after the date of allotment and, within forty-five days after application for registration of transfer of such shares. The company was found to be in violation of this requirement.

## Chairman SEC Visits Islamabad Stock Exchange



*The Chairman SEC, Dr. Tariq Hassan during visit of the ISE.*

The Chairman SEC, Dr. Tariq Hassan has appreciated the implementation of a progressive risk management system, including the system of pre-trade verification, by Islamabad Stock Exchange (ISE). Dr. Hassan visited the ISE and met the newly elected members of its Board of Directors. He appreciated the ISE for quick resolution of investor complaints and urged the ISE Board to take necessary steps for the demutualization of the stock exchange. Dr. Hassan said that in order to remain competitive in a dynamic global environment, exchanges should adopt best practices in the fields of risk management, governance, transparency and investor protection.

## Mr. Rashid Malik Joins SEC as Commissioner

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Chartered Accountants of Pakistan. He holds a Masters Degree in Economics as well.

Mr. Malik was a senior partner of West End firm of Chartered Accountants in London. During this period, he acted as financial adviser in several mergers, acquisitions and flotation of companies.

He held a prestigious membership (Executive Principal) in the UK regulatory body, FIMBRA. He also took part in the

UK Government's Share Shop Scheme in the public offer for sale of shares of British Telecom PLC, as consultant.

Upon his return to Pakistan in 1994, he provided leadership to a diverse group of companies in oil and gas exploration and production sector as well as hospitality industry, information technology and manufacturing concerns. Mr. Malik's diverse experience is complemented with an acute understanding of the financial and regulatory framework governing corporate bodies in Pakistan.

## Round Table Conference with State-owned Enterprises Held

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issues.

The initiative of the SEC to discuss governance issues, peculiar to public sector companies, was greatly appreciated by the participants. It was agreed that the discussions would be continued in future and that efforts would be undertaken to strengthen corporate governance regime.

Mr. Pervaiz Kausar, Chairman, Pakistan State Oil (PSO) Company Ltd; Mr. Tariq Kirmani, Chief Executive, PSO, Mr. Junaid I. Khan, CEO, Pakistan Telecommunication Company Ltd; Mr. Najam K. Hyder, CEO, Oil and Gas Development Company Ltd; Mr. Zafar Iqbal, Chairman, National Refinery Ltd (NRL); Mr. M. Qaiser Jamal, Chief Executive, NRL; and Syed Naseem Ahmad, Chairman/Managing Director, Security Papers Ltd. attended the meeting.

## Seminar on Corporate Fraud held in Lahore

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underway to extend the Code of Corporate Governance to public sector entities and not-for-profit associations.

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

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