



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## NEWSLETTER

Volume V, Issue VI June 2005

### SEC-ASIC sign MoU to Increase Mutual Understanding

The Australian Securities and Investments Commission (ASIC) and the Securities and Exchange Commission of Pakistan (SEC) signed a Memorandum of Understanding (MoU) to establish a framework for mutual assistance and exchange of information. The MoU was signed in Canberra, Australia. Mr. Jeffrey Lucy, Chairman signed the MoU on behalf of the ASIC while Pakistan's High Commissioner to Australia, Mr. Babar Wahid Malik, signed it on behalf of the SEC.

Recognising the increasing international activity in the financial markets, and the corresponding need for cooperation between the relevant national authorities, the ASIC and the SEC formalised a framework that would facilitate exchange of information between them. The MoU has been developed to ensure compliance with the respective securities and futures laws and regulatory requirements of Australia and Pakistan.

### Risk Management Issues Discussed

The Board of Directors of the Karachi, Lahore and Islamabad Stock Exchanges met Dr. Tariq Hassan, Chairman, SEC and Mr. Shahid Ghaffar, Commissioner SEC in Islamabad to review various risk management

issues in the capital market. After threadbare discussions on relevant issues, mindful of the larger interest of the capital market, the following decisions were taken:

#### Inside this issue

*Second  
Conference on  
Corporate Governance in  
Pakistan held* 2

*SEC Chairman  
Suggests Model  
Laws on  
Islamic Finance* 2

*SEC's  
Recommendations  
Included in  
Finance Bill,  
2005* 3

- The position limit in futures trading would be enhanced from 1 percent to 3 percent in each scrip by each member based on free float.
- The 3 percent limit may be enhanced up to 5 percent on the implementation of pre-trade verification system at the Karachi Stock Exchange by July 2005.
- The requirement of 100 percent cash margin in case of exposure exceeding Rs. 200 million would be reduced to 50 percent cash margin and 50 percent margin in eligible securities in the futures market or bank guarantee from a scheduled bank acceptable to the exchange.
- Existing futures contracts based on deliverables would be allowed for trading until September 2005. These contracts would be standardized. In the event of any settlement problem in the deliverable futures contracts, the principle of hammer price would be followed to settle the outstanding trades.
- With effect from October 2005, the stock exchanges would introduce standardized contracts for thirty, sixty and ninety days on cash settlement basis.
- Client code would be indicated in all trades by members of the exchanges.
- Margin mechanism based on volatility and liquidity would be developed and implemented by the end of September 2005.
- Concentration margins would be introduced by the end of July 2005.
- Unique Global Identification would be developed by CDC and implemented by 30 November 2005.
- Exit mechanism in the context of circuit breakers would be developed and implemented latest by the end of June 2005.

## SEC Chairman Suggests Model Law on Islamic Finance

The Chairman SEC, Dr. Tariq Hassan represented Pakistan at the Seminar on “10-years Master Plan for the Islamic Financial Services Industry” in Kuala Lumpur, Malaysia. Addressing the seminar, Dr. Hassan urged the member countries of Islamic Development Bank (IDB) to join hands in formulating a model law on Islamic finance based on Shariah and best practices.

The Chairman SEC said that the creation of Shariah boards was necessitated due to a complete absence of any regulatory framework for Islamic finance. The evolutionary phase for Islamic finance is over and Islamic ummah is now faced with an uphill task of creating a paradigm shift in how it perceives the development of Islamic financial services industry and that of Islamic capital markets in the long run. Dr. Hassan urged that the new set of legal framework must be comprehensive and include all legal and regulatory

aspects of contract law, company law, banking law, bankruptcy and insolvency law, tax law and securities law. Experiences in the area of Islamic finance from various jurisdictions must be pooled together to make it effective, sustainable, robust and modern. He further emphasised that evaluation of specific risks and rewards of Islamic financial products must be highlighted as Islamic finance is characterized with a unique partnership between shareholders, managers and depositors promoting social, moral and ethical obligations between the three partners.

Once a model law on Islamic finance has been developed, it could be implemented in IDB member countries through self-regulatory organizations like stock exchanges and financial sector monitoring agencies. It would be the prerogative of national governments to make adjustments to their existing conventional regulatory regimes to accommodate this law, he added.

## SEC-ICAP Coordination Committee Meets

A meeting of the coordination committee of the SEC and the Institute of Chartered Accountants of Pakistan (ICAP) was held in Islamabad. Dr. Tariq Hassan, Chairman, SEC chaired the meeting, which was attended by Mr. Zafar Iqbal Sobani, President ICAP, office bearers of ICAP and senior officials of the SEC.

Issues relating to transfer pricing, appointment of cost auditors, progress on professional misconduct cases, revision of Fifth Schedule to the Companies Ordinance, 1984, (Companies Ordinance) appointment of cost auditor, indebtedness of auditors, International Standard on Auditing 720, and notification of International Accounting Standards (IASs) were discussed. The meeting discussed strategy for adoption and implementation of International Financial Reporting Standards in place of IAS and ICAP sought SEC's cooperation in this regard.

## Second Conference on Corporate Governance in Pakistan

The Second Annual Conference on Corporate Governance in Pakistan, jointly organized by the SEC and the Lahore University of Management Sciences (LUMS) was held in Lahore.

The conference entailed detailed discussions on corporate governance in family-owned companies,

state-owned enterprises, and in the capital market. International research papers were also presented during the conference.

While addressing the participants, the Chairman SEC, Dr. Tariq Hassan said that the SEC was preparing a Code of Conduct for asset managers, which would be introduced shortly. He added that having introduced the code of conduct for credit rating companies, the SEC would undertake similar efforts for other professional service providers. “It is essential to inculcate ethical practices among professionals in order to enhance their independence and integrity,” he said.

Dr. Hassan also discussed the positive interplay between the economic and social development and corporate social responsibility. “A strong, transparent, accountable, well-documented and socially aware corporate sector is the foundation that our economy needs to base its development on. The SEC is strongly committed to bringing about this positive change in the Pakistani business arena,” Dr. Hassan concluded.



*Chairman SEC, Dr. Tariq Hassan addressing the conference.*

## Enforcement Actions

During the month, the Registrar adjudicated 168 cases on account of violation of different legal provisions. Most violations pertained to delay in filing of statutory returns, including late filing of annual returns, Forms A/B, Form 29 indicating the particulars of directors and officers of the company or any change therein, circular for further issue of capital under Section 86 of the Companies Ordinance, return concerning allotments, annual accounts, statements of beneficial ownership of listed securities and special resolutions passed by companies. A total of 114 cases pertained to late filing of Form 29 by corporate entities.

Of the 168 cases, the Registrar at the SEC's head office adjudicated twenty cases while the remaining 148 were handled by the Company Registration Offices (CROs) in eight cities of the country. The Karachi CRO adjudicated thirty two cases while CROs at Lahore and Islamabad adjudicated eighty nine and fifteen cases, respectively. Remaining CROs adjudicated twenty two cases in total.

In addition, the Registrar Modaraba penalised the chief executive and directors of Islamic Investment Bank for failure to submit quarterly accounts of First Islamic Modaraba for two quarters within the stipulated time periods.

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](mailto:sec.news@secp.gov.pk)

[www.secp.gov.pk](http://www.secp.gov.pk)

## SEC's Recommendations included in Finance Bill

The SEC furnished proposals to the Government for its consideration in the Finance Bill, 2005 in order to remove irritants to smooth functioning of companies and financial institutions as well as to encourage their progressive development. These proposals were based on the suggestions received from different quarters and, largely, on the recommendations of the Task Force on Corporate Tax Policy, jointly formed by the SEC and Central Board of Revenue. Most of the recommendations were accepted by the Government and included in the Finance Act, 2005. Some of these included the following:

- The definition of "small company" has been added in the Income Tax law.
- Corporate tax rate for small companies has been slashed by 50 percent; these companies would now be taxed only at 20 percent. This is expected to encourage corporatization by encouraging businesses to enter into the corporate net.
- Withholding tax of 3.5 percent on supplies has been a major irritant for companies, particularly in comparison to non-corporate entities in the same business. The withholding tax requirement on supplies, services and contracts for small companies has been abolished.
- Non-listed companies, which get listed on a stock exchange would receive a tax rebate of 1 percent. It is hoped that this would serve as an incentive to larger companies to solicit public participation in their securities.
- Losses on amalgamation, which were hitherto allowed to be adjusted on amalgamation of companies in the financial sector, can also be adjusted by industrial undertakings. This is expected to encourage revival of sick units.
- Group relief has been available to companies in the industrial sector only. This concession would now be available to companies in services sector as well.

## 381 Companies Registered

The SEC registered 381 companies during the month, as compared to 269 registered during the corresponding month of the previous year, depicting an increase of 41 percent.

Among the newly registered entities, 373 were limited by shares out of which six were public unlisted, 353 private, fourteen single member companies, six foreign companies, one company limited by guarantee and one trade organization.

The CRO Lahore registered the highest number of 122 companies, followed by Karachi and Islamabad, which registered 109 and seventy-five companies, respectively.

Aggregate authorized and paid-up capital of the 373 companies limited by shares amounted to Rs. 5,547.8 million and Rs. 486.603 million, respectively.

A total of ninety-five companies were registered in the services sector, fifty-five in tourism, forty-six in trading, thirty-five in communications and twenty-three in real estate development sector.