



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## NEWSLETTER

Volume V, Issue III March 2005

### Code of Conduct for Credit Rating Companies Issued

The Securities and Exchange Commission of Pakistan (SEC) has issued a detailed code of conduct for credit rating companies (CRCs).

This will help to eliminate any conflict of interest in the rating process. The code has been developed in light of international best practices and ethical requirements.

Salient features of the code are:

1. CRCs are required to give due consideration to factors such as objectivity, independence, transparency and proper disclosure during the rating process.
2. Certain specified provisions have to be incorporated in the rating agreement with the client, which would clearly stipulate the responsibilities of both parties involved.
3. CRCs shall develop and maintain a website on which press releases and rating reports will be kept available for at least three years.
4. CRCs are required to establish and document policies and procedures to ensure that no conflict of interest arises that would jeopardize the objectivity of ratings.
5. CRCs will develop policies to ensure confidentiality of information obtained by them from the rated entities.
6. CRCs will not take any part in creation of false market and passing of price sensitive information to any players in the capital market.
7. CRCs are required to acquire and maintain membership of the Association of Credit Rating Agencies in Asia (ACRAA) and follow the best practices and guidelines issued by ACRAA.

### Corporate Tax Policy Recommended

The joint Task Force of the SEC and the Central Board of Revenue (CBR), set up in December 2004 for formulating a new corporate tax policy, finalized its recommendations. The Task Force was formed under the chairmanship of Justice (ret'd.) Saleem Akhtar. Some of the policy guidelines developed by the task force are the following:

- Provide concessionary tax rates for SMEs converting to corporate form.
- Listed companies may be given tax rebate to encourage enlisting at stock exchanges. This would promote investments in capital market by the public at large.
- Government should remove all tax and non-tax impediments in conversion of non-corporate business to corporate status.
- In order to encourage corporatization, there should be visible differential in tax rates between corporate and non-corporate entities.
- Government should provide level playing field for corporates in matters of taxation such as minimum tax and withholding taxes.
- Government should avoid double taxation of corporate income by

### Qualification Requirement Relaxed

The SEC relaxed qualification requirement for appointment of company secretary of single member companies (SMCs). The relevant rules were amended to enable graduates to be appointed as company secretaries by SMCs. Earlier, only members of a recognized body of professional accountants, members of a recognized body of corporate/chartered secretaries, Masters degree holders in business administration or commerce or lawers having at least two years relevant experience could become secretaries of single member companies.

*Continued on P 2*

## Draft Futures Act Presented

The SEC is developing Futures Trading Act to provide a comprehensive legal framework for regulating trading in futures contracts and matters connected therewith. The draft Act has been prepared in line with international standards by an independent consultant.

A presentation on the preliminary draft Futures Trading Act was held at the head office of the SEC. Leading capital market professionals, legal experts and officers of the SEC attended the presentation.

## SEC Penalizes Modaraba Company

The SEC penalized the chief executive officer (CEO) and directors of a modaraba management company for failure to submit third quarter's accounts of the modaraba to the SEC within the stipulated period.

The company was issued show cause notices by the Registrar Modaraba, SEC, for violation of Modaraba Companies and Modaraba Rules, 1981. The Rules require submission of quarterly accounts of modarabas. The CEO

and directors of the management company not only failed to respond to the show cause notices, but with the exception of one director, also failed to appear before the Registrar for hearing.

In another case, the SEC imposed a penalty on all directors of a management company for failure to submit accounts of the modaraba for the first three quarters of the financial year 2004 within the prescribed time period. Show cause notices were issued to the CEO and directors of the modaraba management company. On their failure to appear for hearing, the management company was penalised with a fine.

### Other Enforcement Actions

The SEC found thirty four companies violating the relevant rules during the month and took action against them accordingly.

Penalties were imposed on four companies for non/late circulation of quarterly accounts. A company was penalized for non-transfer of shares within prescribed period while another company was fined for late holding of election of directors.

Moreover, two firms of auditors were penalized for giving inaccurate and misleading audit reports, while show cause notices were issued to three audit firms for failure to discharge duties and responsibilities according to relevant law.

## Special Complaint Cell for Investors

The SEC established a complaint cell for speedy processing of complaints of smaller investors regarding the stock market situation and manipulation or speculative trade in the country's capital market. The investors can register their complaints through conventional means as well as through an online complaints and suggestions system on the SEC's website. A ticker has also been displayed on the main page of the website to guide the visitors to the website to this facility.

## Growth in Corporatisation

The SEC registered 295 companies during March 2005, compared to 207 companies registered during the corresponding month of the previous year, showing an increase of 37 percent. Of the total 295 companies, 284 were companies limited by shares including two public unlisted companies, 272 private companies and ten single member companies. In addition to this, six foreign companies and five not-for-profit associations were also registered.

The highest number of forty five companies were registered in services sector whereas thirty two companies were registered in trading sector and twenty eight in real estate development sector.

## Corporate Tax Policy Recommended

*Continued from P1*

abolishing tax on inter corporate dividends.

- Amalgamation of corporates should be encouraged so that companies grow in size.
- Concept of group taxation should be further developed.
- The SEC should not insist on adherence to International Accounting Standards (IAS) by small companies.
- The SEC should provide a concessionary fees regime to small companies, and improve its information dissemination program concerning incorporation of SMEs.

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