



Securities and Exchange
Commission of Pakistan

Newsletter

SECP Perspective

Fall Edition 2013

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Editorial



We are pleased to publish the fall edition of our quarterly newsletter. We would also like to express our appreciation to the worthy contributors.

A well-researched article on the information technology-related developments at the SECP is part of the newsletter. The writer has argued that, information is increasingly recognized as a key resource of the organization comparable in importance to capital and human resources, the way organizations manage information will determine their survival and growth in the future.

This edition has an insightful article on investor education. The writer argues that some retail investors do not approach the capital markets with rational expected returns consistent with their risk profile. Such a situation results in unfavorable outcomes for the uninformed investor. He suggests that investors need to be inquisitive and choosy in their investment decisions. According to him, there are no short cuts to becoming rich and the same applies to making money on the stock market. It may be the easiest path to lose money; if you naively invest.

The newsletter also has an informative article about business ethics. In this article the writer has rightly emphasized the need for business ethics. He suggests that ethical behaviour and corporate social responsibility can bring significant benefits to a business.

A thought-provoking article on making Pakistan an investment destination is also part of the newsletter. The writer highlights the SECP's regulatory role, and identifies solutions and related actions immediately needed for making Pakistan attractive to prospective investors.

We hope our readers will enjoy this edition of the newsletter. We really look forward to receiving your articles, comments, suggestions, quotations and letters. We really need your contributions. Please email them to us as soon as possible.

Information Technology Evolution to Revolution at SECP

By Arshad Javed Minhas



IT throughout the developed world has evolved from a back-end activity for organizations to one of core importance, taking initiatives for improving upon the efficiency and effectiveness of various functions. IT at the SECP has, in a similar way, evolved from provision of simple workstation management function to one of facilitation for all functions and IT has become the core business of all business at the SECP. Today, information is increasingly recognized as a key resource of the organization comparable in importance to capital and human resources, the way organizations manage information will determine their survival and growth in future.

The digital integration both within the organization and outside is changing how we organize, communicate and manage our information. Ultimately, these changes are leading progressive and forward-looking organizations such as the SECP to become digital completely and sustain an environment where all internal business processes as well as relations with the outside world are digitally enabled.

The communication and IT have now entered a revolution phase after evolving over the years and opened up entirely new vistas for the SECP internally as well as externally; it has brought about a dramatic shift not only in the way we are operating today and will operate in the future in terms of service delivery and new product launches, but also collaborate and interact with each other both within the SECP and with other organizations. We have reached a threshold where our future orientations, strategies and activities have to be revisited and adjusted to the new circumstances and opportunities offered by this IT revolution. Globally, the information and communication sector is already expanding at twice the rate of the world economy. Decreasing costs of increasingly powerful and reliable IT solutions, as well as the fact that much hardware has become a desktop item, will continue to drive the increasingly powerful use of information and communication technologies, facilitating access by ever-wider segments of the organization. But this tendency can have profound benefits only if gains in physical access are accompanied by capacity to exploit these

technologies for individual and organizational development through production and dissemination of appropriate content as well as applications.

The IT function at the SECP, since its inception is well aware of the fact that the growth of Internet-enabled applications has brought a new challenge to information system designs, with new demands for systems that accept input and tacit knowledge from a broad range of users. This demand is driven by the realization that a lot of knowledge and experience is still not captured and utilized accordingly. In fact, gathering opinions, concerns, suggestions, ideas, and revelations is just as important as collecting hard facts. In addition, it is also understood that the information systems must now accept and manage dynamic and often unstructured information. In view of the above, an information technology strategy plan (ITSP) for 7 years was prepared and presented before the SECP's Policy Board in 2004. The IT team at the SECP had envisaged years back that the adoption of a complete electronic culture will result in a collection of fully automated processes that provide a more effective method of achieving the goal of efficient and transparent governance. The Information Technology Plan (ITSP), which has now for the surprise of everyone been completed as planned, was divided into the following key area:

1. Business development and regulations process to cover electronic incorporation of companies, electronic submission of returns, monitoring and surveillance. The SECP became the first organization in the region that developed SOA-based architecture of its eServices programme and use of digital signature was also introduced for the first time in the country in 2008 although the work has started much earlier in 2006. This mega initiative not only realized and fulfilled the dream of eGovernance in the country but won number of laurels for the SECP nationally as well as internationally. The most significant of these is the award of Laureate Gold Medal in June, 2011 at Andrew W. Mellon Auditorium, Washington, DC.
2. Business process management and content management to help in setting out the technical approach to automation at all SECP offices with incorporation of workflow automation and content management. This is helping in integration of existing applications and will enhance work efficiencies and move towards a paperless environment. The SECP has taken a proactive approach by setting up a distinct department to take care of both change management (transformation) and knowledge management. The Transformation and Knowledge Management Department was placed in the

same division under which IT department also works, this move is in line with the international approaches to not only ensure business-IT alignment but also to achieve smooth and effective implementations if IT action plans that effect the core business processes of the Commission.

3. Applications development for functions/divisions of the SECP to help automate the routine regulatory actions taken and also provided a mean to better organize and analyze the data related and documents. A number of applications have been developed to take this extremely important task forward. One of the most laudable efforts in this direction is the in-house development of eSurveillance suite of applications at par with the international products. Given the pervasiveness of mobile technology in the country (over 120 million users) and increased use of smart phones, the IT is now looking at developing state-of-the-art mobile phone applications for internal as well as external users.



4. The creation of a comprehensive data warehouse based on the data being captured by existing as well as the future applications. The impressive portfolio of applications that SECP can boast of covers almost all of its business processes. IT has recently obtained tools for business activity monitoring (BAM) and business process management (BPM). The combination of data warehousing and knowledge management (KM) will be used to generate real time analytics and provided to key decision makers through various dashboards on their personalized portals to enable them make right decisions at the right time.
5. Information gateway for exchange and dissemination of information among international and national organizations, companies and general public. A number of new, interactive and out of the box solutions have been implemented to ensure participation of the key stakeholder both within and outside the SECP. A discussion forum and Ideas' portal has been recently launched. A unified communication solution has been implemented which has

brought about an enormous change in the way the SECP employees can communicate with each other and outside world on a single touch of a button and benefit from the latest communication tools such as video conference, telepresence, business instant messaging and IP telephony throughout the Commission.

6. Information technology consolidation highlighting enhancement in existing hardware, network, connectivity between head office and CROs virtualization initiative of the IT has resulted in saving valuable resources for the SECP, which were effectively diverted/utilized in ensuring implementation of an in-depth information security program and thus getting ISO 270001 certified since 2012. A number of important projects for ensure end-to-end digital security involving servers, networks, databases, and other digital information are being implemented. A fully automated state of the art disaster recovery hot-site has been established to ensure business continuity for the Commission.

IT has evolved over time in its applications. Although, it started out primarily as cost control application for focusing internally on office automation, etc. It is increasingly being used for corporate strategic planning and more and more for managing alliances among multiple organizations, groups and general public i.e. eServices and upcoming One Stop Shop (OSS). Being a progressive and forward-thinking organization, the SECP has realized the changing role of IT. The SECP has become a modern organization, with efficiency and timeliness as a vision and clears stands out owing to its innovative use of IT in the public sector of the country. During these years we have made use of most creative and innovative approaches for diffusion of IT, making use of a mix of awareness tools among the user community.



In order to further achieve the vision of complete digitalization of all SECP processes, in the light of the changing role of IT, it is imperative that it continues to make full use of technology in general and IT in particular. Since such objectives cannot be met in a haphazard and unsymmetrical manner, there is a need for implementing the information technology strategy plan with full

commitment to achieve this. Throughout the last years, the IT function of the SECP has been working tirelessly with all the departments at the SECP to ensure development and implementation of systems tailor-made according to their requirements and embarked upon various initiatives in-house and with outside support, forging numerous long-term partnerships in the process. One of the objectives has been to maximize automation of functions and general services at the SECP without excessively straining its financial resources. With this thought a number of the external partnerships IT has forged, have been with E-Government Directorate (EGD), MOIT, PSEB, World Bank and Asian Development Bank (ADB).

It is now well recognized at the SECP that IT has emerged as an exceptionally imperative enabling technology and exposure to state-of-the-art technology throughout the SECP has paved the way for general acceptance of IT, which is essential for effectively implementing IT-related action plans. IT leadership is playing a dynamic role to provide IT leadership, to build the organizational information infrastructure, and to expand technology support to create the information technology environment that the SECP needs in order to reach its goals in the coming decades.

We have come a long way since a humble beginning; more and more emphasis is being placed on in-house development of software packages tailor-made according to the requirements of various departments and divisions within the SECP. With every passing day, the SECP is becoming more and more conscious of the fact that IT is playing a very vital role in all the developmental and innovative activities within the organization. The outcome of these activities would be fruitful and concrete only if the IT activities are held creatively yet in par with the international quality standards.

It is heartening to note that the efforts made by the IT team at the SECP over the years are very well recognized as top quality initiatives with very few comparable examples nationally as well as internationally. A recent independent study conducted by most learned and leading IT consultants has ranked IT function of the SECP at highest level of maturity applying the well-known Galliers Sutherland Stages of Growth model in terms of staff, style, skills, and super-ordinate goals etc. The SECP is proud of the role its IT function has played over the years while moving from evolution to revolution.

The writer is an Islamabad-based executive director of the SECP. He is an alumnus of Quaid-i-Azam University, Islamabad.



A well-informed investor is a well-protected investor

By Muhammad Rabnawaz Awan



These are exciting times to be an investor in Pakistan's equity markets. The KSE-100 index has generated robust returns of 52% in 2013. The demutualization of bourses has helped investors to regain their confidence in the market but to avoid a recurrence of the 2008 turmoil in Pakistan investor education is a must.

The stock market is one of the most brilliant financial institutions ever created, fulfills the need of capital that businesses are looking for, while letting investors profit as shareholders in companies. It is pertinent to mention here that the traditional financial asset classes such as the National Savings Schemes and prize bonds have barely kept up with inflation while bank deposits have actually provided negative real return thus causing loss of savers' purchasing power.

However, people often ignore the fact that making money on the stock market is not possible by taking uninformed decisions. Trading stocks require a substantial amount of study and understanding, before you put your hard-earned money on the line and begin making profits. The investors need to be inquisitive and choosy in their hard earned money.

There are no short cuts to becoming rich and the same applies to making money on the stock market. There is no easy money to be made here, but it may be the easiest path to lose money; if you naively invest money like buying a lottery ticket. Having a relevant knowledge and understanding how to evaluate the worth and potential of a stock, before going ahead is very important. Therefore, investor education is a key ingredient for the growth of any capital market. Individual investors lack the resources to

make informed decisions and develop rational risk-return expectations. The willingness and ability to bear risk need to be evaluated in the correct framework.

Also, since bourses are marketed for long-term capital, a long-term orientation is a critical ingredient for investment success. Unfortunately, in a developing country like Pakistan, where needs outstrip earning ability, some retail investors do not approach the capital markets with rational expected returns consistent with their risk profile leading to unfavorable outcomes for the uninformed.

In order to enhance awareness in different segments of society like university students, professionals, white collar workers and individuals close to the retirement age, the SECP in collaboration with key capital market stakeholders; including, the Karachi Stock Exchange, Lahore Stock Exchange, Islamabad Stock Exchange, Pakistan Mercantile Exchange, Mutual Funds Association of Pakistan, Central Depository Company Pakistan and the National Clearing Company Pakistan launched the first nationwide investor education program in July 2012.



Brokers are the key players in the markets that act on behalf of the investors. Due to the non-professional brokers or rather non-certified brokers of the stock markets, the investors have suffered huge losses and ultimately lose their confidence in this business. This drew huge criticism and the transparency and efficiency of the stock exchanges called into question. The sinking confidence of the investors also resulted in a low turnover in the stock markets.

The capital market is the domain of the Securities and Exchange Commission of Pakistan (SECP) and being the apex regulator it's the responsibility of the SECP to ensure development, transparency and efficiency in the stock market operations. The SECP as an apex regulator is playing its part in making the investor informed and empowered in evaluating different financial products. It is also trying to ensure that uncertified people do not advise people with regard to their investment decisions.

In addition, the SECP has also set up the Pakistan Institute of Capital Markets with the objective of imparting accredited investment education to the market participants.

The ICM Brokers Certification Programs serves as a basic qualification for the employees of brokerage firms providing buying/selling investment advice to retail and institutional clients by focusing on key concepts and principles relating to regulation, valuation, trading, clearing and settlement of listed securities on stock exchanges.

The writer has been part of the media department of the SECP since 2008. He holds master's degree in English linguistics. The views expressed here do not necessarily reflect those of the SECP.



Good Ethics is Good Business

By Waseem Ahmad Khan



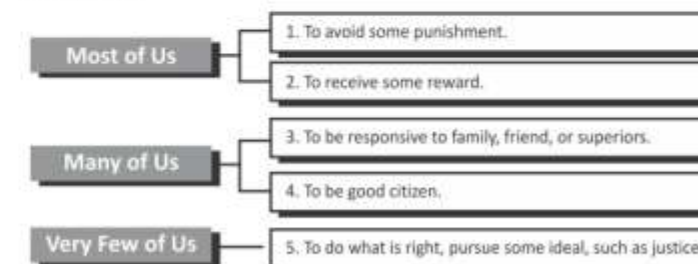
Ethics may be defined as the set of moral principles that distinguish what is right from what is wrong. Business ethics is the behavior that a business adheres to in its daily dealings with the world.

Ethics matter in business because all the stakeholders, whether internal or external, reap benefits when organizations, groups, and individuals take the right actions, and do things the right way. On the other hand, unethical behavior has a harmful effect on others and is characterized as either being illegal, or morally unacceptable to the larger community.

Islam places the highest emphasis on ethical values in all aspects of human life, including family, business, and Society. Ethical norms and moral codes discernible from the Quran and the teachings of the Holy Prophet (peace be upon him) are numerous, far-reaching and comprehensive. However, failure to live by the divine principles has led to a situation that we encounter a crisis of ethics on a regular basis. This unethical behaviour is a cancer that is destroying our social and moral fabric, yet little is being done on the preventive side.

The business entities conforming to ethical principles are more likely to build a sound goodwill, which translates into bringing financial rewards in the long run. But ethical practices cannot and should not be benchmarked to tangible benefits only. Businessmen interested only in financial gains will act ethically when it suits their purpose, but not necessarily, though regretfully, when they see the bottom line going red. Such an application of 'selective ethics' when it suits our purpose has led to a rationalization or a tendency to justify the unethical behaviour in our business environment.

So, what are the factors that lead to good ethical behaviour and good moral conduct? That is to say, why we behave ethically?



Accordingly, in an environment where the rule of law is weak, the accountability mechanism seems to have crumbled, the moral values are disregarded, and the concerns for others' well-being are discarded, one can witness recurring instances of frauds, scandals, corrupt practices, abuse of power, and criminal activities.

In such an environment, businesspersons and employees cut corners on quality control, cover up the incidents, abuse or lie about sick days, lie to and deceive customers, using company property and materials for personal use, paying or accepting kickbacks, and divulging confidential information or trade secrets. From the employers' side, unethical behavior themes include managers lying to employees, firing an employee for whistle-blowing, office nepotism and favoritism, terminating employment without giving sufficient notice, fixing prices, and other forms of fraud or abuse of power.

A businessperson cannot make the right decisions without assessing such decisions against the touchstone of ethics. For him or her, the 'morals' should be as equally important as the 'margins'. **For an ethical organization to be in place,**

we need ethical individuals, ethical leadership (tone at the top), and ethics-based systems and structures, possessing the following attributes:

What are the challenges for us?

We live in a rules-based jurisdiction, requiring strict enforcement of law, and in a society where the rule of law is least respected. On the other hand, a principles-based jurisdiction, characterized by voluntary conformity to ethical and legal principles, requires a less stringent regulatory framework and enforcement. Despite extensive legislation and regulation, we face a tough challenge to stem the tide of unethical business activities resulting into occupational fraud and abuse, financial statement fraud, corruption, money laundering, securities fraud, insurance fraud, and other ugly faces of corporate evil and greed arising from breach of trust and abuse of power in the business world.

Entrusted with the mandate to protect the interest of investors and other stakeholders, the Securities and Exchange Commission of Pakistan has taken regulatory reforms, either through refinements in the existing regulatory framework or introduction of new legislation or



regulations, to optimize the manner in which the companies are governed, managed and controlled. The agency relationship which is at the core of the company law framework is also based on meeting the fiduciary obligations of the agents (directors) to the principals (shareholders). Conformity with good governance principles and minimizing the abuse of power by owners and managers of companies has already been envisaged within the regulatory framework entrusted to the Commission, including avoidance of conflict of interest situations, disclosure and transparency requirements, protection of the rights of minority and non-controlling shareholders, etc. That is to say although the structural framework in the form of an elaborate regulatory framework is already there, what is missing is the spirit, the willingness to meet obligations as they become due and a commitment to respect the rights of other stakeholders.

A survey of corporate governance practices in Pakistan in 2007 noted a lack of the spirit of corporate governance by the companies. It was observed that the majority of the survey respondents had adopted a box-ticking approach to implementing the provisions of the Code of Corporate Governance. They were unable to understand the business case for corporate governance, presumably because for them the main objective was compliance with the code; expanding their horizons beyond this (short-sightedness) did not occur to them. The survey quotes William Donaldson, ex-chairman, SEC, USA:

"A 'check the box' approach to good corporate governance will not inspire a true sense of ethical obligations." According to him, "The most important thing that a board of directors should do is determine the elements that must be embedded in the company's moral DNA..." Yet another quote from the distinguished management guru, Warren Buffet, CEO, Berkshire Hathaway, illustrates this, "In looking for people to hire, you look for three qualities: integrity, intelligence and energy. And if they don't have the first, the other two will kill you."

Ethical investment is worth it!

A report by the UK-based Institute of Business Ethics showed companies that had adopted CSR into their strategy performed better on three out of four financial measures. The companies studied also had 18% higher profits on average. Another study focusing on FTSE 250 companies showed that organizations with an ethical code in place for more than five years outperformed the average on economic and market value-added.

Ethical investment funds have reported significant growth across the UK, Europe and the USA, having attracted capital from a wider investment base. The mainstream institutional investors, such as insurance companies and pension funds, have also recognized the need to offer members access to ethical investment, or have chosen to invest in companies with proven governance and CSR records.

Adopting an ethical corporate culture also has other significant business and societal benefits. It is well documented that the CSR can help attract, motivate and retain talent, especially in a fast-moving employment

How do you spell Success? E-T-H-I-C-S*	
E = Experience	Experience is not what happens to you, but what you make of what happens to you. Learn from the lessons of life and use that wisdom. Values are caught not taught.
T = Training	Train yourself to keep asking the question: "Am I doing the right thing at the right time for the right reason?" This question will help keep you more ethically focused.
H = Hindsight	Hindsight makes the wisdom of past experiences available to us to discern whether we have lived our values, acted ethically and were "other-centered" in our business dealings.
I = Intuition	What does your "gut" tell you is the right thing to do?
C = Customer	Ask yourself: "Are you making a sale or making a customer?" Whatever your answer is, that is where your values lie?
S = Self-Esteem	Self-esteem is my perception of myself in relation to the world, not the world's perception of me. The more positive one's self-esteem is the more ethical one becomes.
*Extracted from article by Frank C. Bucaro, an expert on Ethics, published on June 27, 2012 in www.corporatecomplianceinsights.com	

market, can stimulate departmental and organizational innovation, and can provide organizational flexibility, thus allowing a company to take advantage of opportunities, react to market fluctuations and manage risk effectively. It is also inextricably linked to governance and performance. A management guru has elaborated on the term 'ethics' in the following manner:

Back to the basics...

Islamic teachings strongly stress the observance of ethical and moral code in human behaviour. Moral principles and codes of ethics are repeatedly stressed throughout the Quran. The traits of true believers are depicted in a number of verses, some of which reads:

- Those who are faithfully true to their amanat (all the duties which Allah has ordained, honesty, moral responsibility and trusts etc.) and to their covenants (23:8).
- Verily! Allah commands that you should render back the trusts to those, to whom they are due; and that when you judge between men, you judge with justice. Verily, how excellent is the teaching which He (Allah) gives you! Truly, Allah is ever all hearer, All Seer (4:58).
- O you who believe! Betray not Allah and His Messenger, nor betray knowingly your amanat (8:27).

However, it is rather unfortunate that the historical and global importance of religious views on business ethics is underestimated in prevalent businesses.

The writer is a joint registrar in the Corporatization and Compliance Department of the SECP. The views expressed here do not necessarily reflect those of the SECP.



Quotable quotes from Albert Einstein (1879-1955)



- We cannot solve our problems with the same thinking we used when we created them.
- No problem can be solved from the same level of consciousness that created it.
- Insanity: doing the same thing over and over again and expecting different results.
- The world is a dangerous place to live; not because of the people who are evil, but because of the people who don't do anything about it.
- Anyone who doesn't take truth seriously in small matters cannot be trusted in large ones either.
- The difference between stupidity and genius is that genius has its limits.
- The true sign of intelligence is not knowledge but imagination.
- Try not to become a man of success, but rather try to become a man of value.
- Only a life lived for others is a life worthwhile.
- If you can't explain it simply, you don't understand it well enough.
- Great spirits have always encountered violent opposition from mediocre minds.
- A question that sometimes drives me crazy: am I or are the others crazy?
- I have no special talent. I am only passionately curious.
- Anyone who has never made a mistake has never tried anything new.
- Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning.

Ethics is the activity of man directed to secure the inner perfection of his own personality.
➤ Albert Schweitzer

INSPIRATIONAL LETTER FROM ABRAHAM LINCOLN TO HIS SON'S TEACHER



My son starts school today. It is all going to be strange and new to him for a while and I wish you would treat him gently. It is an adventure that might take him across continents. All adventures that probably include wars, tragedy and sorrow. To live this life will require faith, love and courage.

So dear Teacher, will you please take him by his hand and teach him things he will have to know, teaching him - but gently, if you can. Teach him that for every enemy, there is a friend. He will have to know that all men are not just, that all men are not true. But teach him also that for every scoundrel there is a hero, that for every crooked politician, there is a dedicated leader.

Teach him if you can that 10 cents earned is of far more value than a dollar found. In school, teacher, it is far more honorable to fail than to cheat. Teach him to learn how to gracefully lose, and enjoy winning when he does win.

Teach him to be gentle with people, tough with tough people. Steer him away from envy if you can and teach him the secret of quiet laughter. Teach him if you can - how to laugh when he is sad, teach him there is no shame in tears. Teach him there can be glory in failure and despair in success. Teach him to scoff at cynics.

Teach him if you can the wonders of books, but also give time to ponder the extreme mystery of birds in the sky, bees in the sun and flowers on a green hill. Teach him to have faith in his own ideas, even if everyone tell him they are wrong.

Try to give my son the strength not to follow the crowd when everyone else is doing it. Teach him to listen to everyone, but teach him also to filter all that he hears on a screen of truth and take only the good that comes through.

Teach him to sell his talents and brains to the highest bidder but never to put a price tag on his heart and soul. Let him have the courage to be impatient, let him have the patient to be brave. Teach him to have sublime faith in himself, because then he will always have sublime faith in mankind, in God.

This is the order, teacher but see what best you can do. He is such a nice little boy and he is my son.

Training and Organization Development Wing's initiatives



Orientation of NAB officers

The Training and Organization Development (T&OD) Wing arranged an orientation session on the SECP's functions for 45 trainee officers of NAB through a collective dialogue with Mr. Nazir Ahmed Shaheen, Executive Director, Compliance and Corporatization Department, and Mr. Muhammad Ali, Executive Director, Training, NAB. The half day orientation session covered the overall operations of

some divisions of the SECP, conducted by senior officers. The session was moderated by Mr. Usman Khalid, Joint Director, T&OD, respective presentations were made by Mr. Shehzad Afzal, Joint Director, Enforcement, Mr. Tariq Ahmed, Joint Director, Enforcement, Mr. Kashif Siddiqui, Joint Director, Insurance and Mr. Shahid Nasim, Executive Director, Specialized Companies Division. All sessions concluded with questions and answers sessions followed by informal networking over tea and refreshments at the SECP training facility.



Second SECP Board Games Tournament

In line with SECP's mandate to provide a healthy interactive environment to its employees and based on the popularity of last year's board games tournament, T&OD initiated the second SECP board games tournament. The tournament included four games; scrabble, ludo, chess and carom. Spectator employees and participants of the SECP supporting and representing their respective departments thoroughly enjoyed the tournament. The winners of the second board games tournament were:

Mumtaz Ali and Shahzeer (Finance) – Carom
Maroof Bhatti and Ibrar Saeed (LLGC) – Ludo
Usman Khalid and Kashfa Mehmood / Ayesha Siddiqua (HR&T) – Scrabble
Abid Hussain (SSD) – Chess

Resumption of training sessions on SECP values

Values are powerful drivers of employee behavior and work ethic. The clarity of an organization's values and the command of its employees over these values impact the



everyday decision making of the employees of an organization. T&OD initiated a series of orientation sessions on SECP values to cover all SECP employees and to promote in-depth understanding of the values among the employees. Last year more than 350 employees were trained on the SECP values. The sessions have been resumed to cover the remaining employees and the new joiners. In this quarter two additional workshops were conducted by T&OD.

External trainings

The T&OD team throughout the year remains rigorously involved in providing learning and development opportunities to the employees of the SECP through various sources of local as well as international exposures. During this quarter the T&OD Wing has facilitated 9 employees in attending local external trainings and 4 employees have been sent on international exposures.

Compilation of the annual TNA 2013-14

Compilation of the annual training needs assessments for the year 2013-2014 is underway. The TNA forms from most departments have been received and are being compiled for comprehensive analysis of training needs by the T&OD team.

Preparations for annual dinner in Islamabad

In addition to organizing various teambuilding events the T&OD team is now occupied with preparations of the 2013 annual dinner to be held on November 1, 2013, at 1969 Restaurant in Islamabad. The dinner will be followed by entertainment and fun.

The Corporatization of SMEs

By Sajid Gondal



By the end of fiscal year 2012-13, the total strength of entities registered with the Securities and Exchange Commission of Pakistan (SECP) has reached at 61,989, including 838 foreign companies. The data suggests an average 25% growth in registration of companies during 2012-13, with the incorporation of new 3,960 companies in a complete year. This year, around 1000 companies get their registration cancelled benefiting from the easy exit scheme, a facility introduced by the SECP. The trend shows a healthy growth in incorporation of businesses and certainly, is a step forward towards documented economy.

Obviously, the role of a regulator in promoting the incorporation is significant. Since its establishment, the regulator introduced a number of incentives to facilitate and encourage the registration of businesses including persuading the government to reduce the corporate tax rate, introduction of Companies Regularization Scheme (CRS), availability of names through the internet, placing requirements for incorporation of companies on the SEC's website and rapid incorporation of companies, (i.e. within three days) and a full-fledged campaign to encourage and promote incorporation.

Still, the country needs to cover a long distance in the right

direction as the incorporation figure is as yet a dismal 3% of the total number of business enterprises operating in the country, which, according to SBP are about 3 million. Interestingly, these three per cent registered businesses contribute 63% of direct and indirect taxes to the national exchequer.

At some point, every businessperson considers whether or not to incorporate his business by conducting a SWOT analysis while deciding upon the preferable form of business registration, and examine the rationale of incorporation.

While thinking of the advantages to corporatize his business, an entrepreneur might consider that the business will become a legal entity that would be able to borrow money because financial institutions generally prefer to extend financial assistance to documented and organized form of incorporated business that enjoys credibility. It could also invest funds, raise equity and debt funds, and also own property in its name.

The registration also allows the owners to limit their liability up to the extent of their investment in the share capital of the company. This helps to protect owners' personal assets from

being used for discharging the debts and liabilities of the business. In addition, it provides a legal way of perpetual succession.

Nevertheless, the above mentioned benefits of registration are more attractive for large or big businesses, while the small and medium entrepreneurs may be concerned more about the procedural requirements for getting their business registered. Certainly, an SME entrepreneur will not feel at ease keeping in view the increased paperwork and the cost of maintaining a corporation than a sole proprietorship or partnership. For example, following the registration, the entrepreneur would have to maintain account books, minute book, containing the corporate bylaws and minutes from corporate meetings. In addition, he or she will be required to maintain the register of directors, the share register, and the transfer register. Thus, the paper work of registered entity is substantial compared to a sole proprietorship or partnership.

In addition, an entrepreneur of incorporated entity will have to file two tax returns each year, one for his/her personal income, and one for the corporation. This, of course, means increased consultant's fees. Unlike a sole proprietorship or partnership, corporate losses can't be deducted from the personal income of the owner.

Another disadvantage of incorporating is that corporations are not eligible for personal tax credits.

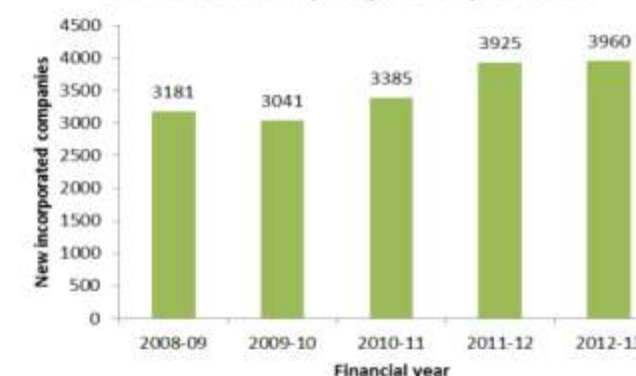
More importantly, as a sole proprietor, if a business experiences operating losses, the owner could use these to reduce other types of personal income in the year the losses occur. While in a corporation these losses can only be carried forward to reduce the corporation's income from other years. Moreover, fees for incorporating a small business with the SECP range in the thousands of rupees—and that's just for setting up. While considering all these disadvantages, an entrepreneur may consider incorporating his business more expensive and troublesome than a sole proprietorship or partnership.

Incorporation of business can also be making relatively attractive by reducing the taxes and removing of tax distortions. The SECP has taken the initiative to overhaul the corporate tax regime and proposed various suggestions to government for incorporation in Finance Bill. Accepting the SECP's proposal, the federal

government announced one per cent cut in corporate tax rate reducing it to 34 percent for 2013-14 from 35% and a gradual reduction in its rate to 30 percent over five years.

Though, the comprehensive legal and organizational framework within which corporate entities operate gives rise to a well-regulated and well-documented economic sector, there is still the room to make incorporation more easy and advantageous. For the aforesaid purpose, the SECP has introduced legislative changes in the Companies Ordinance, 1984 to introduce the concept of single member companies (SMCs) so that any one individual could incorporate a company with limited liability.

Year-wise company incorporation



The SECP has also established a task force called the Corporate Law Review Commission (CLRC), which is drafting a new company law for the country after a detailed study of the global best practices, relevant laws of international jurisdictions while keeping in view the local corporate culture and ground realities. The new law is expected to be finalized in a few months and public consultation will be part of the process.

It is hoped that the new corporate law will provide incentives and hassle free incorporation to small and medium enterprises and bring Pakistani corporate regime on a par with international standards.

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Making Pakistan an Investment Destination

By Shaukat Mahmood Malik Khichi



Someone looking across Jinnah Avenue at the beautiful NICL Building will be unaware of the important work going on in the offices of the Securities and Exchange Commission of Pakistan (SECP). Not many people have heard about the SECP, unless they have had the occasion to visit one of the SECP's company registration offices (CROs), located in all major cities of Pakistan.

Today the SECP is playing a proactive role in the development and enforcement of regulation that will help participants in our capital markets, non-banking financial sector (including mutual funds), insurance, and corporate sectors by adopting best international practice. In 2012, the SECP was elected from the Asia-Pacific region to the IOSCO Board which has responsibility for oversight and approval of all operational, administrative and policy decisions. For the first time in the history of Pakistan, a regulatory body from Pakistan, the SECP, has been elected to a decision-making board at an international forum.

The SECP's rigorous overhaul of capital market related regulations and enforcement has earned it worldwide recognition. For example, the World Economic Forum's Global Competitiveness Report 2012-2013, under its 8th pillar: Financial Market Development ranks the SECP at 55 out of 144 countries for regulation of securities exchanges; this is an extraordinary improvement when compared with ranking of 70 and 76 for 2011-2012 and 2010-2011 respectively.

This recognition is supported by a number of recent initiatives undertaken by the SECP and appreciated by its peers.

Some of the initiatives are as follows:

The revised Code of Corporate Governance, 2012, in line with best international practices was launched in April 2012 to improve standards of governance and compliance with rules and regulations.

The establishment of the Institute of Capital Markets (ICM) to provide investor education and certification to market intermediaries. This will help train investment advisors and improve confidence in our markets.

The launch of investor education and awareness program on a nationwide basis in July 2012. The purpose of this program is to inform and educate prospective investors about the various investment products available to them and their rights and responsibilities.

The Stock Exchanges (Corporatization, Demutualization and Integration) Act, 2012, was enacted as law on September 2, 2012. Pakistan's stock exchanges previously non-profit mutually-owned companies have been converted into for profit companies owned by shareholders, in line with international practice. This opens them up for investment by overseas exchanges.

Report of the Non-Bank Financial (NBF) Sector Reform Committee was recently published for public comments. It should be noted that out of the financial sector's total assets, non-banking financial sector which includes mutual funds accounts for only 4.9%, which is very low. It is hoped that changes to existing rules and regulations will help make NBF sector investor friendly, and reduce risk to capital markets through diversification and less reliance on the banking sector.

The SECP is also actively engaged with counterpart regulators around the world exchanging information and offering mutual assistance in capital market related matters. Some of the countries with whom bilateral MoUs are in force include, Australia, Maldives, Sri Lanka, Bhutan, India, Iran, China and Turkey to name a few.

Pakistan as investment destination: Pakistan due to its geographic location and bad luck has been unfortunately involved in superpower war games for over 34 years. For various political and economic reasons, our continued involvement in the war on terror is slowly destroying our economy and prospects for advancement.

With a shared gene pool, regulation inherited from the British and a shared history of many millenniums with Pakistan's permanent neighbor and twin at birth India, why has Pakistan not been able to join the club of successful nation, while India is now part of the BRIC, an acronym for Brazil, Russia, India and China, which is expected by 2050 to be more prosperous than the developed economies.



Why is this so? The answer lies in the continuity of stable democratic governments in India since 1947 that have been allowed to develop and build strong national institutions and the absence of military intervention.

Democracy is not the best system of government but it is the only system that allows us to remove a sitting government through the simple act of voting. Fortunately for Pakistan, for the first time in our history, power was transferred peacefully in the 2013 elections and the future looks bright for continuity of economic policy and the development of our institutions and infrastructure.

Blessed by two seaports of Karachi and Gawadar, a motor way, a large wireless telephone network, a large young population, regular infusion of foreign exchange through remittance by overseas Pakistanis, Pakistan can and should become the investment destination of choice. A population of over 180 million people, sixth largest in the world, with unmet needs for energy, transportation, education, health and leisure just to name a few, presents unrivaled opportunities for capital investment and generation of profits.

How do we make Pakistan an investor's destination of choice? The answer lies in standing up to our handicaps, making difficult choices, and taking action. Here are some of the more important actions that will impact our economy and need immediate attention.

Energy shortage: Our capacity for production and services is severely underutilized because of continuing energy shortage. Pakistan must embrace the Iran-Pakistan gas pipeline project notwithstanding US reservations by putting Pakistan's economy first. All options should be explored including energy conservation especially in



government organizations and import from neighboring countries.

Rule of law: We become law-abiding as children through the simple act of strictly obeying the traffic rules. Traffic laws should be severely enforced without exception; the rest will follow.

Political and civil leadership must organize citizen's watch and lead a campaign to support our armed forces as they fight homegrown Taliban and other extremists. We should show zero tolerance for terrorist's hell bent on destroying the future of our children and extinguishing all happiness from our daily lives.



Overpopulation: Laws of nature are permanent and immutable. You cannot pour two glasses of water into one glass and, if you try, the water will spill and be wasted. The same is true of a family, where surplus children end up becoming recruits for extremists, criminals and beggars.

While overpopulation has provided us with a very large young workforce, our infrastructure simply cannot support continued uncontrolled population growth and will ultimately breakdown, no matter how many new schools, roads and hospitals we build. Education is a game changer, but we must re-establish family planning centers to educate men and women about health and family planning issues.

Police and civil society: The police must be trained to enforce rule of law and earn the respect of ordinary citizens. You will never see a military man asking you for a lift; however, police can be seen asking people for a lift. Why is this so? Answer: the police unlike the military are under-paid, under-funded, and poorly trained to carry out the most important task of providing protection to law abiding society. Adequate funding, training and equipment must be provided to our police force.

Media: The development of media is a powerful phenomenon in Pakistan and its power must be harnessed for the education and empowerment of the ordinary people of Pakistan.

Regulators must ensure that the media takes responsibility for its reporting and is accountable. Negative reporting such as unnecessary breaking news about acts of terrorism and other unimportant events create sensation, and seriously damage the viewer's perspective and confidence in Pakistan's economy on a daily basis. This is irresponsible journalism. Emotion has no place on the business playing field.



Auditors and listed companies: Shareholders are the true owners of listed companies, and management owes a duty of care to all shareholders including small investors. Auditors must ensure that majority owners with representation on the boards do not run the company as their personal fiefdom at the expense of the minority. Profitable listed companies with good future prospects eventually end up on the investment portfolios of mutual funds around the world. This will help build investor confidence in Pakistan's economy.

Adoption of the Turkish model: Pakistan should follow useful lessons learnt by Turkey in its transformation during its quest to join the European Union from a country led by an Islamic party into a modern and progressive mini-economic power in the developing world. Like Turkey, we must adapt our system and freedoms to make them attractive to foreign investors.

Regional trade: We must improve trade relationships with our neighbors such as Afghanistan and India. Good relations are a prerequisite for building a successful economy, sharing of technologies and overcoming our handicaps. Cross border trade, including investment in each other's capital markets will help raise new capital, for example by issuing long-term development bonds, urgently needed for building Pakistan's infrastructure.



US withdrawal: The U.S. is leaving Afghanistan in 2014, and this is likely to lead to instability there. We must prepare for this by securing our borders with Afghanistan and returning illegal Afghan refugees to Afghanistan. It is important to

negotiate with the US to provide us with a "Pakistan Plan" along the lines of the "Marshall Plan" to compensate for the loss to Pakistan's economy for our assistance in the war on terror. One way to fight extremism is to improve the economic well-being of the poor people of Pakistan.

By implementing the suggestions and hurdles identified above we can indeed make Pakistan an attractive investment destination for the hungry investment funds looking for profits. The investment money chases profits wherever they can be found and in today's investment climate of low returns in the developed economies, currently facing recessionary forces, Pakistan as the sixth most populous country in the world is indeed an attractive investment destination.



It is up to Pakistan's leadership to join hands and help create an environment where the regulatory framework being built and sustained by the SECP can be effectively utilized to build strong and prosperous businesses and give our future generations a Pakistan they can all be proud of.

The writer is a certified public accountant (CPA), the US equivalent of a chartered accountant. He works as a consultant in the SECP's Strategy Development and External Relations Department. The views expressed in this article are those of the writer and do not necessarily represent the SECP's position.





News in brief

SECP to amend Single-Member Companies Rules

In September 2013, the SECP proposed amendments to the 2003 Single-Member Companies (SMCs) Rules. At the moment, 1,672 single-member companies are registered with the SECP, which represent a mere 2.6% of the total corporate portfolio. The concept of SMC was introduced in 2003 to encourage transformation of sole proprietorships into corporate entities. An SMC can be formed with just one-member compared with the requirement to have at least two members for a private limited company and a minimum of three members in case of a public limited company.

SECP issued Draft Bancassurance Regulations

In September, the SECP issued the Draft Bancassurance Regulations, 2013, to elicit the public opinion. They shall replace the Bancassurance Guidelines that were issued in June 2010.

SECP revising NBF sector regulatory framework

Considering the suggested way forward given in the NBF report and comments received from the public, the SECP has now started the process of revisiting prevalent regulatory regime for the NBF Sector. The proposed way forward can be categorized into two parts. The first part requires longer time period for implementation as it requires consent of different stakeholders such as State Bank of Pakistan, Ministry of Finance and Federal Board of Revenue etc. as well as amendments to various statutes. Prior to considering the implementation of this part, the SECP will consider State Bank's feedback on the way forward suggested in the report.

The second part can be implemented in the shorter run as it requires changes to the existing regulatory framework without the involvement of any external stakeholder. The SECP has initiated the process and the requisite amended framework would be implemented during this calendar year after completing the public consultation process.

SECP drafts voluntary code for pharmaceutical industry

In September 2013, the SECP chairman sent a draft code of marketing practices for pharmaceutical industry to the Minister of Health Services, stating that the Drug Regulatory Authority of Pakistan (DRAP), the frontline regulator of the pharmaceutical sector, may be advised to put in place a mechanism for ensuring effective regulation of marketing practices in pharmaceutical industry. It mainly relates to restriction on gifts to healthcare professionals.

SECP to improve regime for insurance brokers

In September 2013, the SECP proposed draft amendments to the 2002 Insurance Rules, affecting the licensing of direct insurance brokers. The proposed amendments have been published in the official gazette of Pakistan to elicit public comments.