

Newsletter

SECP Perspective

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Integration of stock exchanges

The three stock exchanges in Pakistan integrated into a single trading platform under the name of "Pakistan Stock Exchange Limited" (PSX), following a memorandum of understanding which was signed by the exchanges for the purpose on August 25, 2015. The Securities and Exchange Commission of Pakistan (SECP) played a crucial role by facilitating the process and giving its full support to the initiative. The process of integration was completed as per requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Act, 2012. The new unified exchange became operational on January 11, 2016.

The integration of the exchanges is expected to help fulfil the requirements of the Act whereby the stock exchanges are required to divest 60% of their shares lying in blocked account at the Central Depository System to a strategic investor. This is to achieve the true spirit of demutualization. Earlier the stock exchanges, despite various

efforts and negotiations with potential counterparts, had failed to attract the required investment for the purposes of divestment. This was largely because of the fragmented market structure where the three exchanges were separately negotiating with the same parties individually thereby rendering the market unattractive for potential partners. The parties which had shown willingness for the proposal also recommended that the stock exchanges should consider undergoing integration/amalgamation into one platform to make a sound business case for attracting a strategic investor. As envisaged in the Act, the strategic investor is expected to bring good governance, technological partnership and investment to the stock exchanges, and will also increase transparency by improving regulatory standards in line with international benchmarks.

Integration is supported by international trends of globalization whereby markets are fa-

cilitating investors by giving them access to remote markets through state of the art technology solutions. To achieve this, financial institutions world over are moving towards integration and consolidation to benefit from synergies and efficiencies. Integration experiences worldwide have led to multiple benefits in the shape of increased market development, technological partnerships from renowned international institutions, and substantial increase in trading volumes. In Pakistan, trading volumes had traditionally been concentrated at the former Karachi Stock Exchange (KSE) with KSE responsible for over 98% of the trading activity. This rendered the two smaller exchanges - Lahore Stock Exchange and Islamabad Stock Exchange as virtually non-performing stock exchanges. Considering the failure of the stock exchanges to attract strategic investment as per law, low business viability of LSE and ISE, the current stage of our market, and international best practices, integration of the stock exchanges was considered the most feasible and efficient way forward.





Integration is expected to provide numerous benefits to the stakeholders including investors, Trading Right Entitlement Certificate holders and listed companies. By unifying trading platform of the exchanges, integration has given brokers of the former smaller exchanges access to a more liquid and efficient market while reducing their overall costs of doing business. Issuers will also be given the benefit of access to a more liquid market for raising capital and will result in reduced regulatory costs and burden. For investors, the most important benefits will perhaps be facilitation of best price discovery, greater investor protection, ease of order execution and enhanced service delivery. A single stock exchange with strong risk management and investor protection mechanisms will be better able to attract investors from within the country and abroad, apart from achieving synergies, economies of scale and regulatory and operational efficiencies. Needless to mention that these reforms will result in improved image of our capital market and will assist in projecting a strong case for Pakistan for reclassification as Emerging Market at global benchmark providers such as MSCI.

The PSX inauguration ceremony was held at a local hotel in Islamabad which was attended by high-level foreign diplomats, as well as senior parliamentarians and prominent members and representatives from the financial services

Integration is expected to provide numerous benefits to the stakeholders including investors, Trading Right Entitlement Certificate holders and listed companies.

sector and regulatory bodies, brokerage, media and lawyer fraternities. The chief guest on the occasion was the Federal Minister for Finance, Revenue, Economic Affairs, Statistics and Privatization, Senator Mohammad Ishaq Dar who

formally inaugurated the new unified exchange of the country. Prominent speakers on the occasion included the honorable Minister, Chairman SECP, Chairman PSX Board, and notable representatives from the brokerage industry. The successful completion of the integration process also highlights the commitment and support extended by the Government of Pakistan towards achievement of important milestones for economic uplift of the country. The Government has been very keen on improving the regulatory landscape of our capital market and creation of a fair and efficient marketplace, which also coincides with its economic reform agenda. The Government's support in enactment of crucial laws such as the Securities Act, 2015, the Companies Bill, 2015 and the Futures Market Bill, 2015 are examples of its progressive and developmental stance towards the capital and financial markets. It is expected that post integration, the Pakistani capital market will be able to reap the true intended benefits of the initiative and grow to its full potential.





SECPs seminar on Draft Companies Bill, 2016

Dar lauds reforms in SECP's regulatory framework

The Federal Minister for Finance, Revenue, Economic Affairs, Statistics and Privatization, Senator Mohammad Ishaq Dar has appreciated the reforms introduced by the Securities and Exchange Commission of Pakistan to strengthen its regulatory framework.

He was addressing the national level seminar on the draft Companies Bill, 2016 on March 26, organized by the Securities and Exchange Commission of Pakistan (SECP). Senator Mohammad Ishaq Dar was the Chief Guest at the occasion.

He said that the SECP has been transformed into a vibrant and proactive organization and introduced exemplary legislations to strengthen its

regulatory frame work and safeguard interests of the investors.

The finance minister appreciated the work done by SECP and congratulated the Chairman SECP in initiating and working towards conclusion of a long expected law. The Minister said that time has proved that the selection committee choice was right for the position of Chairman SECP.

New companies' law to cultivate corporate culture

Mr. Dar said that the new companies' law is important to cultivate corporate culture, mobilize investments, encourages investors, raises

the foreign direct investments (FDIs) inflow and would also have a positive impact on the economy of Pakistan.

He suggested that more time should be served on consultation of draft Companies' Bill 2016 to come up with a modern, comprehensive and balanced legislation. He said that the new law is important as it is going to cultivate corporate culture, encourage investments, attract foreign direct investments (FDIs) and would also have a positive impact on Pakistan's economy.

Muhammad Ishaq Dar asked the professionals and business leaders to come up with suggestions and feedback on draft companies'





bill. He advised the SECP Chairman to conclude the consultation process in one month period so that the bill could be lay down before the parliament before the presentation of federal budget in June.

The Minister also emphasized the need for a continued review of the corporate laws administered by SECP and advised the top management of SECP to continue with reforms in accordance with best international practices and not to be hesitant in bringing positive changes.

Dr. Tariq Hasan, Advocate Supreme Court of Pakistan, former Chairman SECP, Mr. Asad Ali Shah, Chartered Accountant, Managing Partner, Deloitte, former President, ICAP, Hafiz Muhammad Yousuf, President ICAP and Mian Muhammad Adrees, Chairman, Sitara Group of Companies, former Chairman, FPCCI, the speakers of the event, briefly highlighted the key features of the draft Companies Bill, 2016 and gave their insight on the changes being proposed through the Bill.

The seminar was attended by leading professionals related with the corporate sector, eminent lawyers, chartered accountants, cost and management accountants, office bearers of chambers of commerce and industries, businessmen and other professional and business institutes and bodies.

Significance of Draft Companies Bill 2016

The major focus of this Draft Companies Bill is the facilitation to the corporate sector and other stakeholders as well as strengthening of the regulatory frame work, maximum emphasis

on the use of technology, abolish unnecessary requirements, protection of the interest of shareholders, a softer regime for the companies having no stake of the general public. There is more focus on facilitation and regulation of public sector companies and protection of interest of creditors.

The new companies' law will cultivate corporate culture, mobilize investments, encourage investors and attract the FDI.

The main features highlighted at the seminar included the introduction of use of technological advancements by allowing communication between company and its members and the company and the registrar through electronic means, conversion of loans into redeemable securities and shares, passing of resolution by members through circulation, minimum regulatory requirements for single member companies, added responsibilities for the directors and auditors, additional safeguards for the creditors and investors and improved regime for winding up proceedings.

One of the most significant changes, in line with the other jurisdiction, is that except for the prohibited and specialized businesses, the companies shall be allowed to engage in all the lawful businesses. A simple one page memorandum having principal line of business and prohibitory

clauses shall be introduced. One of the big problems of the corporate sector was to allow the appointment of additional director in mid-term, it has been catered. Another problem was absence of provision for the conversion of director's loan into equity.

Keeping in view the importance of Islamic Finance, the concept of "Shariah compliant company" and "Shariah compliant security" is being introduced. The enabling provision for the certification of Shariah Compliant Company and Shariah Compliant Security are being added in the new law. In an increasingly global world, new concepts have been adopted by studying and analyzing various international jurisdictions to facilitate the corporate sector.

Introduction of new concepts such as specie dividend, mediation and reconciliation, complete regime for the valuation of assets, shifting of jurisdiction to approve the amalgamation of companies, compromises and arrangements from Court to SECP, no approval requirement for amalgamation of wholly owned subsidiaries amongst each other and/or into its holding company or vice versa, e-intermediaries for filing the returns of the companies having no IT infrastructure, attending the meetings through video-link and casting the vote through e-ballot or postal ballot, acceptance of documents on payment of additional fee up to two years without any adjudication proceedings, qualification requirement for the auditor having the paid up capital of less than Rs.3 million and removing redundant and unnecessary obligations contained in the Companies Ordinance, 1984.



Conference on NON-BANK FINANCIAL SECTOR AND CAPITAL MARKETS

The Securities and Exchange Commission of Pakistan (SECP) in collaboration with United States Agency for International Development (USAID) organized a three-day conference, which was held in Karachi from 13th -15th January, 2016 on "Non-bank Financial Sector and Capital Market- Challenges and Opportunities".

The conference provided a platform for policymakers, international experts and industry players to debate the challenges faced by the Non-Bank Financial Sector and Capital Markets in Pakistan and suggest a way forward, while considering the local dynamics and best international practices.

The event was attended by renowned international and local speakers/industry experts who shared their views on various related topics. Speakers from different jurisdictions such as the United States, Turkey, Dubai and Sirilanka shared their experiences and provided valuable

knowledge with regards to their relevant areas of expertise. The aim of the conference was to highlight the importance of the NBF sector to both local and international stakeholders, while showcasing the SECP's continuous efforts in developing its NBF sector and capital market.

More than 200 key participants, including foreign and local financial sector experts, industry professionals and senior government officials attended the event. The high level participation highlighted the potential, resolve and enthusiasm of the financial sector of Pakistan to embrace the new developments and bring a positive change within the NBF and Capital Markets of Pakistan.

In his opening address, the SECP Chairman mentioned that the conference was part of SECP's continuous efforts to improve overall business environment through a comprehensive consultative process, which would benefit all the stake-

holders' including market participants and the regulator. He further emphasized that regulatory measures would help in ensuring provision of a conducive regulatory environment, however, real momentum had to come from the market participants and there was a need to look at regional and international best practices to offer suitable and cost-effective products to give investors a fair deal so that potential of financial markets could be fully explored.

In his speech the State Bank Governor, proposed that the Non-Bank Financial sector should consider introducing deposit protection scheme for the depositors of Non-Bank Financial Institutions. He also assured support of SBP in resolving issues faced by the Non-Bank Financial sector. He further mentioned that the conference was a good effort to provide insight with regards to international perspectives of Non-Bank Financial Services.

In his speech, the USAID mission director,





stated that USAID was proud to work with Pakistan government in strengthening the financial sector and increase private-sector access to finance. He apprised the participants that USAID is working with Pakistan on debt security issuance, strengthening the debt market and helping access to loans for micro, small and medium enterprises.

In his concluding address, Dr. Waqar Masood, Secretary Finance and Chairman Policy Board, apprised the participants that economic indicators of Pakistan have improved significantly due to increase in local and foreign investment, lower inflation, decrease in current account deficit, higher foreign reserves and increase in foreign remittance.

He further emphasized the need for NBFCs to support the envisaged foreign investment, which cannot be dealt with by commercial banks alone. He stated that huge amount is being invested in China Pak Economic Corridor (CPEC). It is an uphill task for the commercial banks to meet the financing needs of the CPEC projects, thus, necessitating the need for NBFCs to shoulder the responsibility by providing the requisite financial support. He also appreciated the efforts of Chair-

man SECP and his team for conducting such a high level conference and making it a very successful and historic event.

The conference was part of SECP's continuous efforts to improve overall business environment through a comprehensive consultative process, which will benefit all the stakeholders.

Dr. Waqar Masood assured that recommendations made in the conference would be reviewed and duly considered by the SECP Policy Board for further submission to honorable Finance Minister. The requisite fiscal re-

forms, in light of such recommendations, would be introduced in the upcoming federal budget.

The first two days of the event were divided into six different sessions and each session was dedicated to a particular segment of Non-Bank Financial Sector that included Leasing, Investment Banking, Micro Finance, Housing Finance, Mutual Funds and Modarabas. The third day of the conference was allocated to the dynamics and outlook of the Capital Markets in Pakistan. After the inaugural session, the sessions on different NBF sectors ensued throughout the remaining days of the conference wherein local and international speakers shared their experiences and made speeches, followed by a panel discussion and a Q&A session.

The SECP Chairman presented the recommendations that were given by speakers/panelists for each sector of the NBF Sector and Capital Markets. It was apprised by the Chairman SECP that all the recommendations that were pointed out during the three day event will be submitted to the Policy Board for consideration.

The conference is being viewed as a major accomplishment for the SECP.



Hijazi for sustainable regulators-academia relationship

SECP signs MOU with leading universities to foster investor education

The SECP Chairman, Zafar Hijazi, said that the relationship between regulators and academia is important to face the complex challenges of developing markets, research and equipping the youth with applied knowledge. He was addressing the participants on the signing ceremony of MoU with prestigious universities for promoting Investor education, awareness on financial discipline and literacy held at SECP head office in April.

The SECP Chairman said that investor education and awareness and financial literacy is a critical pillar of SECP's regulatory regime. He said the SECP investor education campaign aimed to equip the general public with skills and knowledge to make informed financial decisions and manage their money wisely.

Mr Akif Saeed, Commissioner, Investor Education and International Relations (IEIRD) inked the MOUs with the Vice Chancellors of respective universities that include City University of Science and Information Technology Peshawar, Fatima Jinnah Women University Rawalpindi, Hamdard University Karachi, Institute of Management Sciences Peshawar and the University of Engineering & Technology Taxila.

The Commissioner said that equipping our students with financial literacy is important to avoid the incidents of double-shah and illegal modarabas. The potential investors need to be educated about available opportunities for investments, financial ethics and financial discipline so that they made informed decisions. He said that over 55% of Pakistan's population is below 25 years of age, therefore to cope up with future need of employment, we need to create business opportunities. Akif Saeed said the SECP also interested to benefit from research of universities and to promote research in

financial sector, the SECP may consider sharing its data with universities.

Prof. Dr. Hakim Abdul Hannan, Vice Chancellor, Hamdard University Karachi said that a number of people lose their savings due to bad investment decisions as they are not aware of legal investment opportunities offered by regulated sector. Therefore, he said, educating our people and especially youth is essential for raising financially disciplined nation.

Prof. Dr. Samina Amin Qadir, Vice Chancellor Fatima Jinnah University Rawalpindi said that in the developed world, literacy has become a diverse term and it is important to impart our students' knowledge of financial and capital markets.

Dr. Muhammad Mohsin Khan – Director IM Sciences Peshawar appreciated SECP's investor education program and idea of building relationship with universities. Engr. Prof. Dr. Attaullah Shah, Vice Chancellor City University Peshawar emphasized for pursuing the program more seriously to make it result oriented. Prof. Dr. Mohammad Ahmad Choudhry, acting vice chancellor UET Taxila, said that they are working to transform the technology into business and the SECP investor education program would be very helpful in this regard.

Earlier, Ms Khalida Habib, Director IEIRD, welcomes the honorable Vice Chancellors and thanked them for supporting the SECP's investor education program. She informed the participants that SECP has organized more than forty five seminars on financial literacy and investor education in educational institutions, chambers of commerce and industry, professional bodies and corporate sector. The SECP program aims to bring behavioral changes in new generation with regards to financial discipline and literacy.



SECP roundtable on Principles of Corporate Governance

The SECP in collaboration with International Finance Corporation (IFC) and Centre for International Private Enterprise (CIPE) arranged roundtable conference in Karachi on Thursday, March 3, 2016.

The roundtable was conducted to create public awareness and to seek feedback from market participants about proposed Principles of Corporate Governance for Non Listed Companies pursuant to co-operation agreement between SECP, IFC and CIPE. The conference was attended by distinguished guests including representatives from industry, accounting and trade bodies, and academia. Mr. Ebrahim Sadaat was chairing the event.



Mr. Tahir Mahmood, Commissioner (Company Law Division), on this occasion, explained at length as to how proposed Principles of Corporate Governance for Non Listed Companies would be beneficial in improving corporate governance regime for Non Listed Companies. He also highlighted importance of self-regulatory organizations and informed the participants that Principles are voluntary in order to encourage market participants for better adoption. While presenting brief introduction of Principles of Corporate Governance for Non Listed Companies, Mr. Mahmood was of the view that it is a landmark progress for improvement of corporate governance regime for Non Listed Companies. He elaborated that thirteen principles have been introduced wherein phase one contains seven principles and phase two contains six principles. Phase one principles are generally applicable on all Non Listed Companies except small sized companies whereas phase two principles are applicable on large sized companies. He Acknowledged the efforts made by IFC and CIPE, for making peer review of the Principles of Corporate Governance for Non Listed Companies.

SECP recognizing the fact that more than 60,000 Non Listed Companies in Pakistan and there is a dire need to improve corporate governance of these companies. Therefore, Principles of Corporate Governance for these companies are introduced for stakeholder consultation. It is expected that collaboration of SECP and IFC shall transform an effective corporate governance regime for Non Listed Companies in Pakistan. Joint collaboration of SECP, IFC and CIPE was highly appreciated by the participants of the conference. Feedback received from market participants would be taken care in the final draft of Principles by SECP.

Supervisory boards for listed companies

By Muhammad Anwar Hashmi

Governance regimes for companies in the world are under criticism due to corporate frauds or failures. The detection of Volkswagen's cheating on emission tests in September 2015 has put more responsibility on the board of directors of the company to devise a strategic plan for expected 35 billion euros scandal. In the past, Enron scandal and Leehman Brothers drew criticism for the collapse of these companies, mainly due to lack of independence and oversight. Investigation Committee constituted by United States Senate concluded that Enron scandal was mainly due to fiduciary failure of directors, use of high-risk accounting practices, inappropriate conflict of interest, extensive undisclosed off the book activities, excessive compensation of board of directors and lack of independence of the board.

The committee recommended strengthening oversight of the board of directors and audit committee in order to prevent such scandals in future. On identification of inappropriate oversight and lack of independence matters of public corporates, Sarbans Oxley Act, 2002 (Act) was promulgated in United States. In order to improve governance structure of companies, the Act revised corporate governance standards, required chief executive and chief financial officer to sign financial reports, and introduced additional disclosure requirements for director's loans and insider trading.

Role and responsibilities of board of directors of listed companies and intensity of supervision by board of directors and by regulators are consistently being redefined in view of new legal requirements for better performance. As a result, apart from other measures, two-tier governance structures have been introduced, which comprise of management board and supervisory board and generally applicable to public listed companies. The followings are brief characteristics of management and supervisory boards:

Management Board

Management board runs day-to-day affairs of companies. In countries where two-tier governance structures do not exist, management



boards exercise managerial decision making as well oversight. Management board runs the affairs of the company and oversees through various committees constituted for the purpose.

The Code of Corporate Governance, encourages listed companies to have executive, non-executive and independent directors.

Supervisory board

The Supervisory board usually comprises of more experienced senior members and representation from employees. Supervisory board oversees strategic decision-makings and does not indulge into day to day affairs. Supervisory board members are expected to face the pressure from all stakeholders and to meet the long-term strategic objectives. Supervisory boards are liable for penal action of regulators in case of non-compliance of applicable laws.

The European Union's study on director's duties and liability states that legal provisions exist in countries such as Austria, Bulgaria, Italy and Croatia, detailing explicit requirements for having supervisory boards in addition to management boards. In some countries supervisory boards of companies are voluntarily required in addition to management boards. Moreover, Ger-

many is considered pioneer in two-tier governance structure.

Compared to non-listed companies, listed companies in Pakistan are subject to additional governance requirements. The Code of Corporate Governance, amongst others, encourages listed companies to have executive, non-executive and independent directors. Governance regime in case of listed companies is improving with the adoption of new code, but major reliance is on 'managerialism', i.e management board enjoys legal powers as provided in 1984 the Companies Ordinance and exercises discretion in decision making. Moreover, management board is also responsible for oversight.

Keeping in view of the facts that free float of listed companies in Pakistan is very restricted, and most of the companies are family-owned businesses, therefore, in order to attract local and foreign investors and to encourage employee representation on boards, two-tier governance structure may be beneficial. Voluntary adoption of two-tier structures mainly for large financial sector companies, foreign companies and large state-owned companies may result in better self-regulatory regime for such listed companies, provided legal provisions are amended accordingly.



The writer is working as a deputy director in the Corporate Supervision Department.

SECP striving to develop corporate sector

By Shane Coelho

For the expansion and development of the corporate sector and financial market, a robust regulatory framework is of paramount importance. Governance and advancement are synonymous as they complement and supplement each another. A well regulated and supervised corporate and financial service sector is not an end in itself. In its countless endeavors, the Securities and Exchange Commission of Pakistan (SECP), as the apex regulatory authority, is fostering the development of corporate and financial sector ensure that they converge to meet is fundamental objectives, i.e. primacy of shareholders' interests and propelling the growth and financial soundness of the corporate sector; the most vital components for economic prosperity.

Corporate and financial institutions enter the market largely because the regulatory regime offers a well regulated, stable and sound financial system. Thus, supervision and development go hand in hand in promoting a sound and progressive corporate and financial services sector.

The activities undertaken by the SECP have profound and far-reaching effects on attracting investment from home and abroad. The most recent and significant developments are:

- Working in collaboration with the Ministry of Interior to devise a new policy for INGOs;
- Overhauling of the legislative framework for the corporate sector; and
- The introduction of virtual one stop shop.

Policy for regulation of international non-governmental organizations (INGOs) in Pakistan

The contribution of NGOs and INGOs working in Pakistan is commendable. Many of them have been extending assistance to people in the rural areas. It is noteworthy to mention that in the last decade or so, the network of these NGOs/INGOs has increased manifold. Therefore, it makes it imperative to have a system of monitoring to ensure that their activities are in the interest of the public. The policy for regulation of INGOs in Pakistan aims at promoting the best practices and accountability. Under the new policy the government shall exercise control on regulating, registering, monitoring the working and funding of INGOs functioning in Pakistan. In short, the entire prerogative rests with the government to give its nod for an INGO to operate in Pakistan. The regulatory bodies and authorities are to render necessary assistance to the government in ensuring that these organiza-



tions are following annual reporting requirements and their financial transactions are in line with standard practices.

Companies Bill, 2016

Like all modern regulators, the SECP also conducts review of the regulatory framework and endeavors to bring it in line with international standards. The SECP believes that regulatory reform in the corporate sector is a must to meet the growing demands of an ever-changing business and economic environment.

The passing of the Companies Bill, 2016, shall be a landmark achievement for the SECP. The Companies Ordinance, 1984, which has been in existence for the last thirty-two years has its flaws and is unable to cope with the issues and challenges of the growing corporate and financial sector.

The new legislation is taking its final shape covering 502 sections and the areas receiving heightened focus are:

- removal of ambiguities in the current law;
- fortifies the protection of shareholders' interests;
- revised reporting standards bringing in more transparency;
- boosting the use of information technology thereby reducing paperwork;
- easing regulation of small-sized entities.

Virtual one stop shop

The virtual one stop shop is a partnership agreement between the SECP, Federal Board of Revenue (FBR) and Employees' Old Age Benefits

Institution (EOBI). The introduction of VOSS will improve the ranking of doing business in Pakistan. It is an integrated system, which on the one hand supports in modernizing and exchanging best practices between the three organizations and on the other hand provides quick service delivery to new companies interested in doing business in Pakistan.

VOSS is a web portal providing a single interface for investors and entrepreneurs to register without the need of physically visiting the offices of these authorities. Under one umbrella, it provides the following range of services:

SECP Registration of a new company having a legal status, which would ease doing business all over the country.

FBR Registration as an income tax payer deriving various tax exemptions.

EOBI Registration of the employer with the institution and passing the benefits on to its employees for compulsory social insurance coverage.

VOSS is a partnership where one can experience that prompt response is provided, procedures are simplified and results are successfully achieved with less cost and within shorter turnaround time.

As mentioned earlier, successful implementation of VOSS will improve the ranking of Pakistan in the context of doing business.

These are only a few of the series of noteworthy institutional developments, which have been acknowledged as steps in the right direction. These will have far reaching effects, for providing a conducive environment for attracting investment as well we acting as an impetus for economic growth; thus raising the ranking of Pakistan.

After serving the Insurance Division for 9 years, the writer is currently working as private secretary with the in charge, CRO, Karachi. She is a graduate in humanities from Karachi University.

SECP adopts 4 international Shari'ah standards

To bring standardization and harmonization in Shari'ah-related matters of IFIs under its regulation and supervision, the SECP has adopted Shari'ah standards numbers 3, 8, 9 and 13 issued by the AAOIFI.

Prior to adopting the standards, the SECP circulated them among stakeholders/industry to solicit their feedback. The comments received from the stake-

holders/industry were placed alongside the standards before the SAB for its consideration.

After the concurrence of the SAB, the SECP approved the above-mentioned standards for adoption by IFIs with certain amendments/clarifications as suitable for the capital market. Headquartered in Bahrain, the AAOIFI is an Islamic international autonomous non-profit corporate body that prepares

accounting, auditing, governance, ethics and Shari'ah standards for IFIs and the industry. It is an independent international organization supported by institutional members (200 members from 40 countries), including central banks, Islamic financial institutions, and other participants from the international Islamic banking and finance industry, worldwide.

SECP notifies Licensed Persons Regulation 2016

The SECP has accorded its approval to the Licensed Persons (Obligations under voluntary winding up) Regulation 2016. The new regulations are in line with its efforts to strengthen the capital market and to

safeguard the interest of investors.

The Regulations prescribe the minimum requirements to be complied with by a licensed person prior to filing voluntary

winding up petition. The requirements inter alia include settlement of investors' claims and obtaining approval of the Commission. The new regulations are available on the SECP's website.

SECP starts companies registration under VOSS

The SECP has started registration of companies under the newly introduced virtual one-stop shop (VOSS) and has registered two companies namely M/s CEMEX (Pvt) Limited and Bisma Builders and Developers (Pvt) Limited under VOSS.

SECP also conducted a number of awareness sessions for potential promoters about VOSS features and ben-

efits.

Earlier, on the basis of an initiative taken by the federal government, a memorandum of understanding for the establishment and operation of VOSS was signed between the SECP, the Federal Board of Revenue and Employees' Old-Age Benefits Institution, to provide for integrated company, tax and employers' registration with the three authorities, re-

spectively, under the online mode.

In addition, the newly introduced system has also integrated three internal processes of the SECP, including name reservation, company registration and issuance of certified true copies of the company formation documents. The VOSS software has been developed by Pakistan Revenue Automation (Pvt.) Limited (PRAL).

CCI Okays SECP's (Amendments) Bill, 2016

The Council of Common Interests (CCI) on February 29 unanimously approved the Securities and Exchange Commission of Pakistan (Amendments) Bill 2016. The council met here with Prime Minister of Pakistan M Muhammad Nawaz Sharif in chair and attended by the all the Chief Ministers.

According to Chapter 3, article 153 of the constitution, all the laws related to federal statutory bodies shall approved by the CCI before presenting to the parliament.

The SECP is the apex regulator of the corporate sector, insurance sector, NBFCs and capital market overseeing around as many as 70,000 registered companies. The operational framework of the SECP Act needs revamping to enforce transparency, ensure good governance and to overcome the gaps and operational deficiencies.

After its establishment in year 1999 through various amendments the mandate of SECP was enhanced to floatation, management & regulation of Modarabas (1999), Insurance Sector (2000), Non-

Banking Financial Companies Sector-NBFCs (2002), Commodity Futures Market (2003), Real Estate Investment Trust-REITS (2008).

The conversion into a unified regulator was not adequately equipped with legal powers to perform its enhanced mandate. Furthermore, the corporate and financial markets have transformed drastically in the last decade. Furthermore, periodic assessment of SECP role and statutory authority has been under taken by various international agencies.

SECP exempts mutual funds from IFRS-10

The SECP has exempted mutual fund companies from the requirements of consolidation under section 237 of the 1984 Companies Ordinance and International Financial Reporting Standard-10 (IFRS-10).

The IFRS 10 will not apply to investment by companies in mutual funds established under trust structure. It is to facilitate the mutual fund industry and in accordance with the intent and purpose of the legislature, IFRS-10 deals with the preparation of consolidated financial statements of holding companies and subsidiaries.

SECP-FIA joint task force on capital market formed

A joint task force of the FIA and SECP has been established upon instructions of the Federal Minister for Interior and Narcotics Control. This is to set a coordination mechanism between two organizations to deal with sensitive issues in capital market. This joint task force will discuss all matters prior to initiation of any actions by FIA pertaining to the capital market of Pakistan. Both the government institutions have nominated their seniors officers as members for the Joint Task Force.

Mr. Zafar Hijazi, the SECP Chairman is of the opinion that this endeavor will lead to greater investor protection & confidence in the capital market of Pakistan.

SECP-ICAP joint committee on audit oversight board submits its report



The joint committee of the Securities and Exchange Commission of Pakistan (SECP) and Institute of Chartered Accountants of Pakistan (ICAP), formed to prepare recommendations for establishing an independent audit oversight set up for public interest company auditors in Pakistan

In a ceremony with Finance Minister M Ishaq Dar as its Chief Guest, the chairman of the joint committee Dr. Tariq Hassan, Advocate Supreme Court presented its report to the Chairman SECP and President ICAP on March 26.

The six member Committee constituted on November 14, 2015 comprised three members each from both SECP and ICAP respectively namely Syed Shab-

bar Zaidi, Mr. Naeem Akhtar Sheikh, Mr. Asad Ali Shah, Mr. Zafar Abdullah Commissioner, Mr. Ali Azeem Ikram Executive Director and Mr. Muzaffar Ahmad Mirza Chief Prosecutor. The report is an outcome of joint deliberation sessions held during last four months.

The report includes historic perspective of Audit quality mechanism in Pakistan and provides a way forward towards formation of an independent audit oversight board, in line with international standards. The Committee acknowledged the significant role of Quality Assurance Board of ICAP and recommended for continuation of QCR function with introduction of oversight of the same by proposed audit oversight board, through appropriate amend-

ment in the SECP Act, 1997. The same is in line with standards set by international standards and best practices.

The establishment of independent audit oversight board for public interest companies would raise quality of audit ensuring protection of minority interest and restoring investor confidence.

Dr. Tariq Hassan thanked both Chairman SECP and President ICAP for confidence reposed in him and acknowledged valuable contribution from committee members. The report was handed over to Chairman SECP and President ICAP in the presence of honorable Finance Minister Mr. Ishaq Dar, in a ceremony held at Islamabad.

SECP initiates action against non-performing modarabas

The SECP has carried out a comprehensive financial review of modarabas on the basis of their historical performance to identify the entities that failed to perform despite availability of vast Shari'ah compliant business avenues available to them. In the process, out of 28 modarabas, the performances of 13 modarabas have been found unsatisfactory.

The issues being faced by the non-performing modarabas are presence of significant non-earning and classified assets, lack of diversification, liquidity issues, small capital base to compete and non-

injection of fresh investment. These issues have affected the financial performance of the modarabas and are major hurdles in distributing dividends among the certificate holders.

In an effort to streamline the affairs of the non-performing modarabas, the SECP has initiated necessary enforcement actions against the modarabas having unsatisfactory track record of dividend payouts, high classified and non-earning assets and the modarabas, which have not implemented proper risk management framework. The chief

executives and the board of directors of the management companies are being persuaded to chalk out business plans to improve the performance of modarabas in the best interest of the stakeholders.

The SECP has vowed to take all possible legal actions not only to improve the performance of modarabas but to weed out bad performers from the modaraba sector to protect the interests of certificate holders. During the exercise, non-performing modaraba management companies may face actions as provided in the law.

SECP amends investment parameters for Islamic mutual fund industry

In order to foster the growth of Islamic mutual fund industry, the Securities and Exchange Commission of Pakistan has revised the investment parameters for Shariah Compliant open end collective investment schemes.

The Commission allowed the Islamic mutual funds to include the Government of Pakistan Ijarah Sukuk not exceeding 90 days remaining maturity in cash and near cash instruments requirement. Shariah Compliant open end collective investments schemes has not seen the issuance of short term Islamic Government papers like T-Bills, therefore, Government Ijarah Sukuk having remaining maturity of 90 days or less is the only viable and available avenue for investment in cash and near cash equivalent.

Over the past decade the Shariah Compliant Funds have shown a tremendous growth and grew from Rs. 9 billion to Rs. 139 billion. The size of Islamic mutual funds is 29.12% of total mutual fund industry. A variety of mutual funds are being offered in this category to suit the varied needs of the investors.

It is expected that these revised investment parameters will cater the growing needs of Islamic Mutual fund industry and investors.

SECP notifies committee for divestment of PSX shares

The SECP has constituted a "Divestment Committee" for the divestment of shares of the PSX. The Committee comprises of Mr. Abid Ali Habib, Mr. Muhammad Yasin Lakhani, Mr. Abdul Majeed Adam, Mr. Ahmed Chinoy, Mr. Arif Habib, Mr. Najam Ali, Mr. Ferozuddin Cassim, Mr. Amin Issa Tai, Mr. Muhammad Sohail and Mr. Shehzad Chaudhary. The Divestment Committee has been notified in terms of requirements of the Stock Exchanges (Corporatisation, Demutualization and Integration) Regulations, 2012 and has been entrusted with ensuring completion of the divestment process within six months.

SECP Appellate Bench achieves zero pendency of appeals

The Appellate Bench of the SECP has disposed of 126 appeals during July 2015 to December 2015 and has achieved zero pendency. The Appellate Bench was reconstituted after the appointment of new Commissioners, aimed by the Mr. Zafar Hijazi, the Chairman SECP to expedite the disposal of appeals filed before the Appellate Bench under section 33 of SECP Act.

There were 129 pending appeals before the Appellate Bench for the period July

1 to December 2015, which include a carryover of 113 appeals and 16 new appeals were registered during this period. A total 126 appeals were fixed for hearing and adjudication during July 2015 to December 2015.

All appeals were disposed of after giving opportunity of hearing to the parties concerned; however 13 appeals were dismissed due to non-appearance and non-prosecution of the appellants, who failed

to appeal before the Appellate Bench despite several notices. Whereas, only three appeals remain unfixed as there were restraining orders from courts.

The Chairman SECP Mr. Zafar Hijazi has appreciated the Appellate Bench's accomplishment of disposing of all the pending appeals and said that the prompt disposal of investor's complaints/appeals is important for investor confidence.

SECP introduces complaint drop box facility

In order to facilitate investors to lodge complaints with the SECP swiftly, complaint drop boxes are being provided at Pakistan Stock Exchange Limited (Lahore, Islamabad and Karachi), National Clearing Company Limited, Central Depository Company (CDC).

The complaints will be collected by the SECP representative every three days. It is pertinent to mention here that beside complaint drop box facility,

online complaint filling facility is already available for investors at the SECP and Jamapunji websites.

The SECP has started a comprehensive investor education program with the collaboration of market intermediaries to improve financial literacy and awareness regarding savings and investment.

To widely disseminate the message leaflets, text messages,

posters and standees etc. are being placed at strategic locations having considerable footfall. Standees featuring investor education portal, SMS service, service desk facility, guidelines for investors of capital market have been made available at Companies Registration Offices and market intermediaries, including Pakistan Stock Exchange Limited, National Clearing Company Limited and Central Depository Company.

NA body approves Corporate Restructuring Companies Bill

The National Assembly Finance Committee on Finance and Revenue on March 4 unanimously approved the draft of the Corporate Restructuring Companies Bill, 2016. Mr Qaiser Ahmad Sheikh chaired the meeting.

The bill is aimed at establishing a new business regime under which corporate restructuring companies are to be incorporated, licensed and regulated by the SECP to perform the business of acquisition, management, restructuring and resolution of 'non-performing assets of financial institutions' and restructuring, reorganization, revival and liquidation of 'commercially or financially dis-

tressed companies and their business'.

The bill will also provide basic set-up for the rehabilitation mechanism of sick units in the country and to put the corporate economy on fast track.

The SECP drafted the bill after extensive consultations with relevant stakeholders such as the SBP, Pakistan Banks Association, business groups, and legal experts.

Mr Qaiser Ahmad Sheikh noted that there is a need to introduce a comprehensive legal framework to address the rehabilitation issues of distressed businesses in Pakistan, develop

and promulgate a comprehensive corporate rehabilitation regime.

The committee was informed that the existing institutional arrangements and legal process for revival and rehabilitation of potentially viable companies are both inadequate and time consuming. Efforts in the past have been made largely on creditor-friendly laws, which resulted in a serious imbalance of legal remedies between creditors and debtors. A Banking Law Review Commission (BLRC) constituted in 2001 had emphasized the need for developing a progressive law for the revival of companies facing financial crisis.

English-Urdu glossary

As per the government's decision to promote Urdu, the SECP has published a comprehensive English-Urdu glossary. It contains 1050 most commonly used words in business, finance, insurance and law. This glossary is also available on the SECP's website. <http://www.secp.gov.pk/urducontent/guides/SECPGlossary.pdf>. It has been prepared in consultation with financial professionals and language experts. It may be added that the SECP's translation department is in the process of translating laws, SROs, orders and bills into Urdu.

Hijazi for listing of more agricultural commodities at PMEX

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SECP implements quality control mechanism for cost auditors

The SECP in its recent meeting has withdrawn the 1990 Vegetable Ghee and Cooking Oil Companies Order, and issued a circular requiring appointment of QCR-rated auditors for performance of cost audit.

Vegetable Ghee and Cooking Oil Companies Order required that the companies in this sector maintain cost records and should be audited under the provisions of the 1984 Com-

panies Ordinance. A review of the sector revealed that practically local industry imports the bulk of refined, bleached and deodorized cooking oil and markets it subsequent to packaging.

The manufacturing constitutes only negligible part of the producing process hence the cost records/audits did not add value to the understanding of the financials of such companies. At the same time, in order

to strengthen vigilance on cost auditors reporting on the cost accounts, the SECP has introduced quality control mechanism for cost auditors.

Thereby, the SECP now requires all public companies to appoint only cost and management accountants or chartered accountants as their cost auditors, which hold satisfactory rating from the ICMAP or the ICAP.

SECP appoints prominent professionals on the PSX Board

Realizing the crucial role of the stock exchanges as frontline regulators of the capital markets, the SECP has appointed prominent professionals to act as independent directors on the board of the PSX.

The appointments have

been made with a view to bring diversity and synergy and facilitate national level representation on the governing body of the exchange. In addition to reappointment of Mr. Muneer Kamal, the SECP has appointed Mr. Moin M. Fudda, Mr. Tawfiq Asghar Hussain, Mr. Muhammad Naeem,

Ms. Rahat Kaunain Hassan and Mr. Samir Ahmed as independent directors on the PSX board.

It is expected that the appointments will greatly benefit implementation of SECP's vision for development of a vibrant capital market.

SECP takes action against a credit rating company

The SECP took enforcement action against a credit rating company involved in rating shopping and imposed the first ever monetary penalty of Rs 600,000/- on the company. The company was earlier given an appropriate opportunity of hearing by the Commission.

Further, the company was warned to comply with the regulatory framework and code of conduct in letter and spirit in future. SECP believes that the role of credit rating companies is crucial for the development of the capital markets as they provide an independent view to the in-

vestors regarding the standing of a company or an instrument.

The issue was highlighted in the inspection reports of Commission's first ever onsite inspections of both the credit rating companies in Pakistan conducted in 2015.

SECP notifies Licensed Persons Regulation 2016

The SECP has accorded its approval to the Licensed Persons (Obligations under voluntary winding up) Regulation 2016. The new regulations are in line with its efforts to strengthen the capital market

and to safeguard the interest of investors.

The Regulations prescribe the minimum requirements to be complied with by a licensed person prior to filing voluntary

winding up petition. The requirements inter alia include settlement of investors' claims and obtaining approval of the Commission. The new regulations are available on the SECP's website.

SECP tells companies to report compliance with licensing conditions

The SECP has approved the Companies (Compliance with Licensing Conditions) General Order, 2016 in exercise of the powers conferred on it by section 246 (1) of the Companies Ordinance, 1984. This will facilitate investors and stakeholders interested in doing business with a particular company which is subject to a licensing regime.

They can verify the status of compliance with the licensing conditions on the basis of corporate record maintained with the office of the registrar concerned. The order requires all such classes of companies subject to a licensing regime to annex with their annual returns required to be filed with the registrar concerned under section 156 of the Companies Ordinance, a report regarding compliance with the licensing conditions imposed by the relevant regulator/licensing authority.

The order will be applicable for compliance by the companies each year ending on and after June 30. The order is available at the SECP's website www.secp.gov.pk

SECP introduces e-voting

The SECP has issued the E-voting Regulations 2016 paving way for the shareholders to be part of the decision-making process of their company through electronic means. This allows shareholders to vote in meeting from a remote location by using the Internet.

This is a further step by the SECP to encourage corporate democracy and to promote good corporate governance by making use of technological advances. Shareholders have the right to be part of the decision-making process of their company to the extent provided by the law.

The regulations prescribe mechanisms to make the voting process faster, more transparent and cost efficient. It facilitates electronic voting on resolutions of companies in a fair and transparent manner. The counting of votes in e-voting is done through electronic means.

SPOTLIGHT ON SECP ACTIVITIES

Session on Investigation Evidence Collection and Qanoon-e-Shahadat



PDD organized three interactive sessions on “Investigations, Evidence Collection under Qanoon-e-Shahdat, 1984”. Mr. Muzzafar Ahmed Mirza, Chief Prosecutor (PLAD), conducted these sessions.

Officers from Karachi and Lahore participated through video conferencing. These were the contents of the session:

- Sequence/Format of the Investigation Report enabling the law officers to prepare complaint;
- How to record statement of accused;
- How to identify witness
- What is Qanoon-e-Shahdat; and
- What constitutes evidence in terms of Qanoon-e-Shadat and other related issues.

Session on stress management

Professional Development Department organized an interactive session on Stress Management which was held on January 28, 2016 by Mr. Amjad Javed, Advisor HR, on the third floor training room. The participants from Karachi and Lahore joined through video conference from their respective stations.

These were the contents of the session:

- Definition of stress
- Understanding human nature
- Sources of stress
- Sign and symptoms of stress overload
- Highly stressful jobs
- Non – stressful jobs
- Stress: social and cognitive in Pakistan
- Stress in the western world
- Steps to lessen stress or stress full conditions



Training program on introduction of criminal laws and investigation techniques by NAB



The SECP being the apex regulatory authority of capital markets and the corporate sector, has witnessed an extension in its scope and responsibilities over the years adding further challenges and dynamism to its mandate. Especially after promulgation of Securities Act, 2015 in which violation of certain important provisions is a criminal offence, leading to prosecution through court. Due to complexities involved and the stricter burden of proof in criminal convictions, it is crucial for relevant SECP officers to be proficient at gathering credible and relevant evidence to proceed with investigations.

On the directives of the honorable Chairman SECP and to ensure smooth handling of investigations entailing criminal convictions, PDD in collaboration with the National Accountability Bureau (NAB) planned tailored training sessions for relevant SECP officers from key functional departments. NAB having a vast scope of criminal jurisdictions, agreed to engage its key experts during these training sessions.

The scope of the training sessions encompassed understanding relevant laws and their applicability, introduction of the criminal justice system, criminal procedures and civil procedure. To ensure effective understanding of the laws with relevance to the SECP's mandate, Mr. Muzaffar Ahmed Mirza, Chief Prosecutor SECP had also been engaged as a trainer.

The comprehensive 5-day training program on Introduction to Criminal Laws and Investigation Techniques was held on January 4-8 on the third floor training room.

Session on code of conduct and SECP Mission, Vision and Values for new employees

PDD organized a training session on the Code of Conduct and SECP Mission, Vision and Values for new joiners on January 19, 2016. The following were the facilitators;

- Mr. Usman Khalid, Joint Director – IE&IRD for session on SECM Mission, Vision and Values and
- Mr. Mubbashar Hassan, Additional Director – HR for SECP Code of Conduct



Cancer awareness session for women



Pakistan has the highest rate of cancer in the whole of Asia with every 9th woman at high risk of getting cancer at some point in her life. Every year 40,000 women are killed with cancer in Pakistan and approximately 90,000 new cases are diagnosed, however the number of unreported cases is expected to be much more. Accordingly, Professional Development Department in collaboration with Dr. Rubina Tahir, Chief Medical officer of SECP, organized the "Cancer Awareness session for Women" at SECP for female employees of SECP in Islamabad through pink ribbon. The spouse of the male employees of SECP were also invited to attend this awareness session. The female employees of CRO Lahore and SRO Karachi joined through video conference. The event was held on January 22, at the NICL Auditorium, SECP headquarters, Islamabad.

Training program on insurance

Professional Development Department organized an interactive session on "Risk Based Supervision in the Insurance Sector, operational Indicators and Legal and accounting side of Insurance". The session was held on January 18, 2016, on the third floor training room and was conducted by Mr. Omer Morshed, an insurance guru. He is an actuary, chartered accountant and a well-known insurance and pension expert. He is the chief executive of Sidat Hyder Morshed Associates. He is a Fellow of the Pakistan Society of Actuaries and of the Institute of Actuaries in the UK, a Fellow of the Institute of Chartered Accountants in Pakistan and an Associate of the Institute of Chartered Accountants in England and Wales. He has also served as the chairman of Insurance Accounting Committee of ICAP and the head of the committee formed by the SECP to revamp the takaful rules in Pakistan:

These were the contents of the session

- Legal and Accounting side of Insurance
- Key Areas for the Development of Insurance Industry in Pakistan
- Early warning systems for the effective regulation of insurance industry in Pakistan
- Roadmap for development and implementation of risk based insurance supervision framework in Pakistan.



SECP, Islamabad Chamber of Commerce and Industry sign MOU



On an initiative taken by the Implementation and Economic Reforms Unit, Ministry of Finance, a Memorandum of Understanding for establishment of a physical one-stop shop at Islamabad Chamber of Commerce & Industry (ICCI) was signed between SECP, FBR, EOBI and ICCI on September 28, 2015. Mr. Mubasher Saeed Saddozai, Director (CCD), signed the MOU on behalf of the SECP.

Training session on official decorum and etiquette

The PDD organized the training session on staff etiquette and official decorum for the officers of the SECP on January 12, 2016, by Mr. Usman Khalid, Joint Director -IE&IRD, on the third floor training room. The objective of this training sessions were as follows:

In this three-hour session, participants learnt unique and interesting facts about;

- Claud Shannon and Warren Waver's world renowned "WOVEN" and its relevance to professional communication.
- International and domestic professional attire requirements for gentlemen and
- Continental, American, Asian and sub continental fine dining etiquette.

Participants benefited from the workshop by learning about:

- Further improve their interpersonal communication
- Dress with more confidence in making a presentable appearance on a day to day basis and on special occasions such as conferences and meetings
- Learn about international and local fine dining etiquette for better self-management during professional lunches and dinners.



SECP's 4th BOARD GAMES TOURNAMENT 2016



The Professional Development Department (PDD) organized the "4th SECP Board Games Tournament 2016" in January and February, 2016 at the SECP's head office

The objective behind organizing sports event in the SECP is to encourage healthy activities among employees, informal gathering, fun and entertainment. The event provided employees an opportunity to interact with each other in a casual and friendly environment which further strengthens the employees relationship within the SECP. Each game demands discipline, time management, strategic/tactical team work and decision making skill. Most importantly, this event brought together contestants and provided them with the opportunity to relieve stress.

There was healthy participation in a competitive yet jovial atmosphere. The SECP Chairman graced the prize distribution ceremony on the 12th floor conference room and appreciated all the participants for their enthusiasm. He also emphasized the importance of conducting such events periodically to encourage health and fitness and interdepartmental networking at the SECP.

There were four different types of board games competitions such as carrom, ludo, scrabble, and chess. The following are the results of the 4th SECP Board Games Tournament 2016



CARROM

CHAMPIONS :- Mr. Taimur ul Hassan Janjua and Mr. Muhammad Shahbaz

RUNNERS – UP:- Mr. Muhammad Riaz and Mr. Muzamil Shah

LUDO

CHAMPIONS :- Mr. Muhammad Riaz and Muzamil Shah

RUNNERS – UP:- Mr. Imran Khan and Mr. Muhammad Hassam

SCRABBLE

CHAMPIONS :- Mr. Adil Jamal and Ms. Kashfa Mehmood

RUNNERS – UP:- Mr. Jawad Ahmed and Mr. Haris Bin Tipoo

CHESS

CHAMPION :- Muhammad Shahzeer

RUNNERS – UP:- Mr. Talha Monis



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An investor education initiative of the SECP

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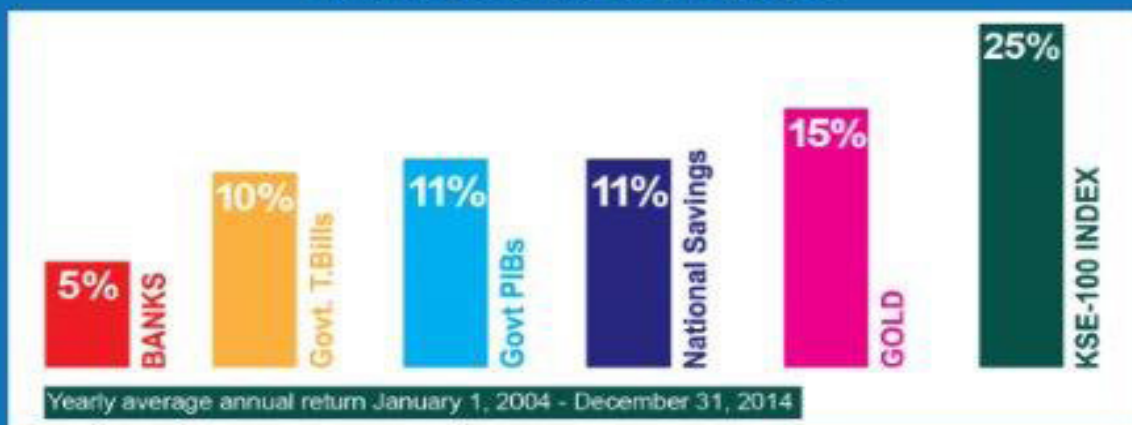
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- ▶ Beware of the Risk-Return Trade-off, High Risk High Return, Low Risk Low Return
- ▶ Diversify your investments by investing in different asset classes
- ▶ Consult Investment advisors / research analysts if necessary before making any investment decision



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