SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NEWSLETTER

SECP

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NEWSLETTER 2015

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Federal Minister Senator Muhammad Ishaq Dar addressing SECP Employees

Finance Minister appreciates SECP's initiatives

Federal Minister for Finance, Revenue and Statistics Senator Muhammad Ishaq Dar has emphatically asked the Securities and Exchange Commission of Pakistan (SECP) to adopt policy of zero tolerance against insider trading and set example by identifying and penalizing black sheep in stock market so that it serves as deterrence and the menace is curbed.

He said that incidents of insider trading and market manipulation like price manipulation, blank selling, front running etc. severely damage the small investors and must be curbed for the protection of investors' interest.

During his visit to SECP head office here on February 16, detailed presentations were delivered by the SECP chairman and commissioners in relation to the SECP reform agenda and areas requiring the government's support. The Finance Minister while appreciating the SECP's efforts highlighted the immense potential of the NBFIs and Insurance Sector. He desired detailed presentations on these sectors based on the ideas presented so that necessary steps can be agreed and implemented for the development of these crucial segments.

Later, while addressing the SECP employees he said that the role of SECP is not limited to regulate the corporate and capital sector, but also to facilitate and protect small investors. He complemented the SECP Chairman Mr Zafar Hijazi and his team for their excellent performance and enhancing SECP's regulatory role and hoped that they will continue the current pace of work.

In this connection, he especially mentioned the SECP's recent initiatives includings development of Sukuk Regulations, Book Building Regulations, Unit Link Rules for Life Insurance, approval of REITs etc. He expressed his concern that the full potential of the Pakistan Mercantile Exchange Limited was not being realized and hoped that the SECP Chairman would take necessary measures for the development of the commodities market in Pakistan.

While advising the SECP to submit its tax proposals on priority he cited example of tax avoidance in relation to tax levied on bonus shares. He assured his confidence that this issue will be settled in favour of the government.

While giving future guidelines, the Finance Minister said that Pakistan had to go a long way towards the development of financial institutions for long term funding as commercial

banks cannot fulfil the financial needs for the development of industrial sector.

He referred to the laudable services of SECP's previous chairmen who built the organization. In this connection he said the founding Chairman of the SECP, Mr. Shamim Ahmad Khan, worked hard to put the SECP on sound footings and making it a credible regulatory authority. Likewise, the services of former SECP Chairman Tariq Hasan and Khalid Mirza are also praiseworthy.

He said that the government had taken measures to make Pakistan economically a sovereign country. He said when the present government took over, all the international financial institutions were fearing that the Pakistan would default by 2014, but now with positive and sincere steps, not only the financial credibility of Pakistan has increased but the foreign reserves which earlier stood at $7.5 billion are now in the range of $16 billion.

The Finance Minister agreed with the Chairman SECP's request for having its own building and assured his support in this regard. He also assured his full support in expediting enactment of various legislations crucial for the development of sectors under SECP preview.

THE CHAIRMAN ASSURED THE FINANCE MINISTER THAT SECP EMPLOYEES ARE TOTALLY COMMITTED TO MAKING THEIR BEST EFFORTS TO MEET PUBLIC EXPECTATIONS

Chairman Zafar Hijazi while welcoming the Finance Minister assured him that the SECP employees were totally committed to their jobs and were making their best efforts to meet public expectations. He said that the SECP is very firm in its mission of the development of a transparent and vibrant capital market, efficient and compliant insurance, NBFC and corporate sectors.

The Much Awaited Limited Liability Partnership Act

Shane Coelho

In pursuit of achieving its cardinal objectives as embodied in the mission statement and to remain in sync with global business practices, the Securities and Exchange Commission of Pakistan has taken yet another initiative, which is directed at the growth and regulation of the Pakistani corporate sector.

At present, the options available under the 1984 Companies Ordinance for the formation of a legal entity are a "public company", "private company", "single member company", "association not for profit" and "guarantee limited company". With the passage of time, the professional services sector has shown an appreciable growth. The only option currently available is for a few professionals is to join and form a general partnership. However, a general partnership does not have a legal personality. It merely comprises of its partners, unlike a company, which is an artificial person, it cannot create a charge on its assets, contract in its own name or hold property. In fact, contracts made are enforced against partners either individually or jointly with each other. Without the partners, therefore, a partnership has no existence of its own.

Hence, the bill on "The Limited Liability Partnership Act 2014" has been moved, which will provide an enabling environment for the growth and regulation of professional services sector. It is envisaged that the proposed law to broaden the corporate sector by bringing this large and unregulated segment under the regulatory framework. This business structure shall appeal to lawyers, chartered accountants, cost accountants even small entrepreneurs or other professionals perhaps doctors and engineers for carrying out their professional practice while enjoying the benefits of limited liability.

It is an ideal opportunity for small entrepreneurs to reassess their business structure and reorganize it in a smart manner under the LLP regime. Small entrepreneurs can reap financial benefits such as setting up the business at a lower cost, registering higher profit margins, with reduced chances of facing legal consequences. The law aims to make these professionals globally competitive and by having a corporate identity their contribution shall be recorded in the nation's economic growth.

However, an LLP cannot be formed for charitable purposes because it has been designed for mutual benefit and profit earning through commercial purpose, whereas a charitable organization or trust are formed with the objects of welfare.

LLP is a hybrid business model combing the characteristics of a 'corporation', 'company' and 'partnership', blending together the benefits of these business forms. The LLP is a partnership in which all partners have limited liability in an incorporated entity and the legal entity is separate from its partners. The concept of limited liability partnership was introduced for the first time in the United States in the 1990s. The idea of LLP was well taken and many other countries such as the UK, Singapore, India, Japan, South Africa, introduced laws for governing LLPs.

One of the key differences between a general partnership and LLP is that whilst in a general partnership individual partners are personally liable for the partnership's debts and obligations, a LLP provides each of its

individual members the protection against personal liability for certain partnership liabilities and limits the liability of each partner.

> **An LLP can be formed when two or more persons enter into a business relationship with a view to making profit.**

As the name suggests, it has the features to protect the partners' liability. Any debts and obligations of the LLP will be borne by the assets of the LLP and not that of its partners.

In a company, the constitutional document is the Memorandum and Articles of Association, which binds all shareholders and directors. However, under an LLP the rights and duties of the partners of an LLP and is the LLP shall be governed by the LLP agreement. Unlike a company, which is subject to stringent compliance requirements of the law, an LLP shall be provided with flexibility of organizational arrangement and comparatively fewer regulatory compliance requirements.

The Salient Features of a Limited Liability Partnership are:

- The LLP is a body corporate and legal entity separate from its partners.
- The LLP will have perpetual succession.
- The LLP shall be governed by an agreement between the partners or between the LLP.
- The LLP shall be liable to the full extent of its assets with the liability of the partners being limited to their agreed contribution in the LLP.
- No partner shall be liable to the independent or unauthorized action of the other partners or their misconduct.
- Every LLP shall have at least one partner as designated/managing partner whose duties and obligations shall be provided in the law. He shall be a resident in Pakistan.
- Lesser compliance requirements.
- Easy registration (payment of a flat fee, statement by every person who is to be partner of the LLP, partnership agreement containing the proposed name of the LLP, nature of business to be transacted, physical existence/ registered office, details of all partners /designated partner, minimum capital requirement and minimum contribution by the partner(s))
- Easy exit
- Transfer of ownership (legal heirs to assume partnership
- Provides for conversion of existing status
- Exemption from audit
- Income tax to be charged in the hands of the LLP and not in the hand of the individual partners
- Maintaining solvency
- Foreign investment allowed in LLP subject to approval by the Interior Ministry

Feedback/Comments:

At present, the draft has been disseminated and the SECP has invited public opinion and comments, which shall be considered and incorporated in the act, prior to its promulgation. Some of the feedback/suggestions that have been found viable are listed here below:

- The act will entail consequential amendments in the 1961 Chartered Accountants Ordinance
- Requirement and significance of financial capital versus intellectual capital at the time of incorporation
- Level of contribution required by each partner at the time of incorporation/entry into the LLP;
- Methodology for distribution of profits;
- Taxation issues on amalgamation and merger, earnings, etc.
- Taking the provincial governments on board to avert delay in promulgating the act
- Factors/determinants of solvency and measures to mitigate the possibility of insolvency.

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This concept of limited liability partnership shall have far-reaching impact particularly in the context of emerging and changing global economic trends which will not only enable investments but also provide an opportunity to LLPs to compete internationally.

The writer is a senior executive secretary, currently working with the in charge, CRO, Karachi. She is a graduate in humanities from Karachi University.

Social Business and Social Capital Markets

'When greed is good'

Zohra Sarwar Khan

Conventionally, capital markets connect investors who have money with entrepreneurs who have ideas but less money. Specialized institutions facilitate this exchange of capital and information between investors and businesses. Financial reports, financial analyst, research reports and financial intermediaries further assist efficient and effective allocations of capital from investors to companies.

The mechanism for guiding funds to non-profits is rather less developed. Although nonprofit produce audited annual statements but mostly such report reveals virtually nothing about its effectiveness or efficiency in creating social value. The links between the outcome and management's decisions and strategy is lacking in financial reports. There are no public databases or experts that collect, standardize or compare data that deduces results regarding social impact. Also, the ongoing pressure for procuring funds for projects often makes non-profit organizations more vulnerable to their major donors' special preferences and demands, distracting them from their core mission and potentially compromising future performance. The traditional financial expense ratio makes the traditional profit market appear better managed than the non-profit organization.

However, slowly a new breed of donors is changing the terrain, i.e. successful internet gurus, entrepreneurs and other business leaders look at how they can create value in the philanthropy as they have in traditional profit making market place. This has given way to renewed interest in using the philanthropic/charity funds as capital investment, i.e. while charitable, these funds are still capital investments of precious resources. The term social business and social capital markets therefore emerged as a consequence of this paradigm. Social business , as the term has been commonly used since, was defined by the Nobel Peace Prize laureate Prof. Muhammad Yunus and described as the new kind of capitalism that serves humanity's most pressing needs. A social business is essentially financially self-sustainable and profits realized by the business are reinvested in the business itself (or used to start other social businesses), with the aim of increasing social impact. Unlike a profit-maximizing business, the prime aim of a social business is not to maximize profits (although generating profits is desired).

Furthermore, business owners are not receiving any dividend out of the business profits, if any. What is interesting is the fact that social business is not dependent on donations or on private or public grants to survive and to operate. As per Yunus's quote, "A charity dollar has only one life; a social business dollar can be invested over and over again." Social entrepreneurs like Sabah Gul, CEO of the Pakistan-based Bags for BLISS , Business and Life Skills School, are making the best out of it . Her company brings in Pakistani girls who are forced to pick work over school to a classroom where their work is turned into income. It is a venture that is fraught with all sorts of obstacles and challenges. "When people see what we're doing, they understand the financial return involved," says Gul. It may not be immediately from the bags her company sells. Its yields are longerterm, in the educated girls and the communities that they're a part of. An educated individual, Gul argues, is a financial return beyond measure. At this year's SoCap she is hoping that others will see those dividends. "I'm hoping to work out some deals," she says.

For decades, there is perception that there is no precise way to measure value creation by non-profit/ social enterprise. But there are ways about value in terms that tell us whether or not we are moving in the right direction. Finding space and opportunities in social capital market and social business a concept still in infancy, is the way forward especially considering the fact that more and more traditional profits yielding organizations are entering nonprofit territory.

Targeted business analysis for investees and venture philanthropy must be essential part of social businesses. There is need to shun survival of operations of social enterprises on the basis of charity or conditional funds. Self-sustaining social business and yielding returns based on models for social return on investment is a step in the right direction. While the right momentum is building, for once, Gordon Gekko, a character in the 1987 film Wall Street and its 2010 sequel Wall Street: Money Never Sleeps, would be glad to quote, "Greed has gone good."

The writer is deputy director in the SECP's Enforcement Department. A professional management accountant, she holds a certificate in poverty studies from the School of African and Oriental Studies (SOAS), London.

Outstanding performance of the Pakistani capital market in 2014

The year 2014 was a year of growth and exuberance for the Pakistani capital market. Throughout the year, the benchmark KSE-100 Index of the Karachi Stock Exchange Limited (KSE), exhibited outstanding performance and touched historic, unprecedented levels in terms of value and volume. According to Bloomberg, Pakistan ranked third in 2014 amongst the Top Ten Best Performing Markets in the world. Also, Pakistan has been able to secure a place amongst the Top Ten for the third consecutive year now. Moreover, in the MSCI Asian Frontier Markets, Pakistan ranked number one - outpacing Sri Lanka, Vietnam and Bangladesh by a big margin.

In 2014, the KSE-100 Index gained 6,870 points thereby generating a handsome return of 27% (31% return in US$ terms). The year 2014 will also be remembered in the Pakistani capital market history for mega public offerings led by sale of shares by the Government of Pakistan, and in terms of money raised through these offerings. Total offerings in the year 2014 reached 9 as compared to 3 in the year 2013. After a gap of seven years, Rs73 billion were raised through offerings in 2014 as compared to a meager Rs4 billion raised in 2013. Higher foreign inflows during the year can also be counted as a major market impetus. Foreign investors, that hold US$6.1 billion worth of Pakistani shares - which is 33% of the free-float (9% of market capitalization) - remained net buyers in 2014.

This positive performance of the capital market can be attributed to a number of favorable factors, both at the political and economic front. As enumerated above, substantial foreign investments in the equity markets which captured considerable free float of the market, declining dollar-rupee disparity and Government of Pakistan's secondary market offerings played a major role. Other key factors which can be seen as contributing to the market's bull-run are Government's business friendly reforms, improved macro-economic indicators including record forex reserve levels increased confidence shown by international donor agencies, Government's energy sector initiatives, significant interest shown by China to invest in Pakistan, and Government's plans and initiatives towards fast-track privatization.

The Chairman of SECP Zafar Hijazi feels that Pakistan's capital market should continue its topper's position in the new year as well, nevertheless should also qualify among the world's most transparent and fair markets, providing the best opportunities to the investors. The incoming Chairman has already embarked on implementing a robust reforms agenda for the capital market primarily focusing on strengthening of the market monitoring and enforcement regime and introduction of structural reforms for market development and its outreach. As one of the first major steps, the Chairman has immediately doubled the human resources and infrastructure strength of Market Monitoring and Surveillance function, enhancing the scope by monitoring of capital market related discussions/programs/news on the print and electronic media including analysts' recommendations, investing tips/strategies to their clients/general public. These preliminary actions reflect the apex regulator's unwavering commitment towards protection of investors' interest and rebuilding of a fair, efficient and vibrant marketplace which will continue to contribute positively towards the country's economic growth in the years to come.

SECP expedites Appellate Bench hearings

The Appellate Bench of the Securities and Exchange Commission of Pakistan (SECP) has expedited the hearing of pending appeals. The Commission is determined to reduce the pendency of appeals to zero in next two months. There were about 162 appeals pending at the Appellate Bench of the SECP. In the recent past, the process of the hearing of appeals was a bit slow at appellate bench due to shortage of Commissioners at the SECP. Following the appointment of Mr. Zafar Hijazi as Chairman SECP and Mr. Akif Saeed and Mr. Fida Huaaian Samoo as Commissioners, the Commission reached to its full strength. The Chairman SECP Mr. Zafar Hijazi has appreciated the decision of the Appellate Bench to dispose of these appeals within two months by hearing the appeals on daily basis. The two appellate benches have heard 17 cases on Thursday whereas 46 cases have been fixed for next ten days.

Chairman SECP also advised Commissioners to give even ex-party decision in cases where the appellants are not appearing before the Appellate Bench despite several notices. He said that the investor confidence is key to the development of the capital market and he has been very particular about mitigating the investors' difficulties through a system of prompt disposal of their complaints.

Zafar Hijazi said that the SECP would launch e-Appellate Bench by the end of 2015. This will be the first electronic appellate forum in Pakistan. The initiative will facilitate the corporate sector by enabling them to file appeals online.

The Appellate Bench of the SECP is mandated to hear appeals against the orders passed either by a Commissioner or any other officer authorized by the SECP. It comprises two Commissioners.

SECP initiates examination of prospectuses

The Securities and Exchange Commission of Pakistan (SECP) has drawn up a roadmap to review the operational performance and financial result over the years viz a viz the projections given in the prospectus of companies. The exercise is aimed-ensuring accountability sponsoring directors of the companies whose performance, in the years subsequent to listing, could not match the tall claims made in the prospectus.

It may be noted that the requirements for disclosure of material, relevant and complete information at the time of issuance of prospectus is already very stringent in the Companies Ordinance, 1984 and relevant rules made thereunder. Any, omission and misstatement of material facts in prospectus attracts penal provisions under the Ordinance.

Prospectus serves as the key tool for prospective investors, particularly the general public, for raising capital from the capital markets. Companies raise substantial capital through public offer for purpose of financing their capital expenditure, aggressive expansion plans and business reengineering. Therefore, companies clearly state the purpose, benefit and utilization of the capital raised from public subscription. Moreover, the forecast and projections made in the prospectus foretell the tale of a successful business model promising substantial profits and indicating attractive return in the form of dividend.

In certain cases, however, in the years subsequent to a successful public subscription, the operational and financial performances of the Company reveal losses and mismanagement, depriving investors from reasonable return on their investment.

The accountability of directors of the company for prudently managing the affairs of the Company and fulfillment of their statutory responsibility towards the shareholders is the key for assessing the performance of the Company. Therefore, in addition to consistent examination of annual and interim accounts, the prospectus and allied information of listed companies are being examined and comparisons drawn with the current performance of such companies.

SECP verifies promoters CNICs

The Securities and Exchange Commission of Pakistan (SECP) has started verifying the credentials of the promoters/directors of companies through the online CNIC (Computerized National Identity Card) Verification Service (VERISYS) of National Database and Registration Authority (NADRA).

This verification will be made on all new registrations of companies and Section 42 companies.

This is a web-based real-time activity displaying the front and rear image of the CNIC for verification of the genuineness of the applicants.

The measure is aimed to ensure authenticity of the information of the promoters/directors filed during the incorporation of companies through the statutory returns with the offices of the registrars. It will also be helpful in countering the fraudulent activities committed through fake identity of individuals who are at the helm of affairs to run a company.

It will further bring in transparency

Cost-cutting Steps

SECP Chairman rationalizes entitlements of senior officers

In pursuance of government' directives to all organization to cut expenditures in order to reduce burden on the national exchequer, the Chairman, Securities and Exchange Commission of Pakistan (SECP) Mr. Zafar Hijazi has initiated steps to curtail perks of senior officers to ensure optimum utilization of financial and human resources.

The cost cutting measures include significant reduction in fuel, residential telephone, mobile phone entitlements as well as entertainment budgets of Chairman SECP, Commissioners, Executive Directors and Directors of the SECP. It has been decided that the SECP officers, including Executive Directors and Directors would only be entitled to travel in economy class instead of economy plus.

In addition, the Commission has further tightened the delegation of financial powers of officers. As per new directions, all budgetary expense, starting from one million rupee and above would only be approved by the Commission. The overall policies relating to payroll structure, increment, bonuses and terminal benefits of employees are also being rationalized.

Meanwhile, for better utilization of human resource, the Human Resources Department has started work load assessment of all employees. Consequently, the employees will be rewarded and their services would be better utilized in areas where they excel. Besides, the purpose is that the money spent should give proper results.

and ensure validation of information, besides eliminating instances of fraud and forgery. Not the least, it will be helpful in supporting the anti-terrorism efforts of the government by ensuring validity of identity information.

The verification service will also be extended for validating information of sponsors of companies in the non-profit sector while applying to the Commission for license as an association not for profit under section 42 of the Companies Ordinance, 1984.

SECP verified FBR data of compliant companies

The Securities and Exchange Commission of Pakistan (SECP) has responded to the Federal Board of Revenue's query and apprised it about the companies that had satisfied its compliance requirements but had not filed tax returns with the FBR. The FBR wanted to confirm their filing status with the SECP for the year 2014.

The FBR had shared a list of 9,721 companies with the SECP. These companies did not e-filed income tax returns as of January 5, 2015, but had filed tax returns for the tax year 2013.

It emerged that about 62% of companies, out of 7,444 companies, have filed their annual returns with the SECP in 2014. The lists of 4,641 compliant and 2,803 non-compliant companies have been shared with the FBR.

The SECP carried out a comprehensive exercise to check the status of the said entities/companies through its online database. In a short span of 10 days, the SECP examined the status of all companies provided in the list.

Pakistan's Mutual Fund industry managing funds worth Rs500 billion

The Chairman Securities and Exchange Commission of Pakistan (SECP) Mr. Zafar Hijazi expressed his satisfaction that the mutual funds industry of Pakistan is showing strong growth and successfully managing the public assets of more than Rs500 billion with a variety of investment vehicles including equity funds, income funds, money market funds, government securities funds.

He was talking to a delegation of Mutual Funds Association of Pakistan (MUFAP) led by its Chairman Mr. Muhammad Shoaib and Senior Vice Chairman Mr. Shahid Ghaffar.

The Chairman MUFAP gave a detailed presentation on the mutual funds industry in Pakistan highlighting the growth witnessed by the industry due to favorable investor sentiments and excellent performance record of mutual funds over the past years. He informed that asset management industry is managing public assets of more than Rs.500 billion and manages variety of investment vehicles including equity funds, income funds, money market funds, government securities funds; with high ethical standards. He also pointed out the pressing issues faced by the industry including the taxation regime, among others.

The Chairman SECP said that the mutual funds industry of Pakistan has great potential for growth and the mutual funds association can play an important role for development and growth of the industry. He highlighted that core investment in mutual funds should largely be based on the retail investors and the industry should play its role to inculcate a culture of savings in the country.

These investors can greatly benefit from the expert fund management services offered by asset management companies. He also advised the industry participants to focus on devising new products catering to the needs of the investors. He described the various measures taken by the SECP for facilitating the industry participants and assured that the issues faced by the industry would be addressed.

SECP approves first ever REIT proposal

The Securities and Exchange Commission of Pakistan (SECP) has approved a proposal for launching the first ever 'Real Estate Investment Trust (REIT)' Scheme in Pakistan. The REIT will be managed by Arif Habib REIT Management Company Limited.

With the advent of REIT Schemes in the Pakistan the capital market enters into a new era where it will figure prominently among regional markets. REITs are a recognized investment vehicle in many developed countries like USA, UK, Australia, Malaysia, Japan, etc.

Mutual funds, Modarabas, corporates, banks and other investors will have access to a new asset class (REIT Units) which will enable them to diversify investments and manage risks. The assets of the REIT Scheme will be maintained in the name of the Trustee and its affairs will be managed by a licensed REIT Management Company.

The SECP has approved draft trust deed, business plan and conditional valuation report of the scheme. Earlier, the SECP had approved real estate, name and trustee of the REIT scheme.

A regulator should watch interests for the man in street: Khalid Mirza

Mr. Khalid Mirza, former Chairman of the Securities and Exchange Commission of Pakistan (SECP), and the Competition Commission of Pakistan (CCP) said that all the actions and policies of a regulator should protect the interests of the man in street.

He was addressing senior

SECP recommends insurance tribunal in Islamabad

The SECP has written to the Law and Justice Division, recommending it to establish a specialized and independent insurance tribunal in Islamabad in accordance with the provisions of the 2000 Insurance Ordinance to clear up the backlog of pending cases.

The SECP has pointed out to the law ministry that in 2006 with the approval of the chief justices of relevant High Courts, the federal government had conferred the powers of the insurance tribunal on district and sessions judges in Karachi, Lahore and Peshawar. Yet due to heavy workload in sessions courts the SECP's complaints have been pending for the last five years. "The desired results could not be achieved as no relief was provided to the aggrieved policyholders."

Thus, in order to provide speedy justice to the aggrieved policyholders, the SECP is in favor of establishing independent and exclusive insurance tribunals as envisaged under sections 121, 122 and 123 of the Insurance Ordinance.

The SECP has offered to provide office space to specialized tribunals at its offices in Islamabad, Lahore, Peshawar, Faisalabad, Multan, Quetta and Karachi.

The SECP has also pointed out that it has no objection to the Law and Justice Division's proposal to confer the powers of the insurance tribunal on the district and sessions judge as an interim arrangement.

Meanwhile, the SECP has started formulating regulations for the small dispute resolution committees. These committees will arbitrate between insurance companies and the policyholders.

SECP approved Sukuk Regulations

As part of its mandate to develop the Islamic capital market and to facilitate fund raising through Sharia Compliant financial products, the Securities and Exchange Commission of Pakistan (SECP) has approved the Regulations for issuance of Sukuk.

The Sukuk Regulations, 2015 (the Regulations) has been made under Section 506A of the Companies Ordinance, 1984 (the Ordinance). The draft of the Regulations was earlier notified for soliciting public comments thereon.

Islamic capital market is considered as an important segment of a developed and broad-based capital market. A developed Islamic capital market can play vital role in the economic growth of a country.

Currently Sukuk are issued as an instrument of redeemable capital under Section 120 of the Ordinance mainly through private placements. Beside Section 120, no other specific regulatory framework existed for structuring and issuance of Sukuk. Therefore, it had become imperative to have a separate set of regulatory framework for issuance of Sukuk. Major investors in Sukuk include the mutual funds, employees' funds, commercial banks both conventional and Islamic and NBFCs which directly or indirectly hold public funds.

The Regulations prescribe certain conditions to be met before issuance of Sukuk and the eligibility criteria for the issuers. The Regulations in addition to the disclosure and reporting requirements also require appointment of the Sharia Advisor and Investment Agent. Sharia.

SECP organizes investor awareness seminars

The Securities and Exchange Commission of Pakistan (SECP) to further its endeavor of protecting retail investors, raising awareness about savings and investment and building investor confidence, organized awareness seminars in Lahore, Karachi and Islamabad.

The seminars were well-attended, with engaging presentations and a lively Q&A session. It was part of the SECP's overall investor education program, which is aimed at enhancing financial literacy and providing easy access to financial instruments through setting up of capital market hubs across major cities of Pakistan.

officials of the SECP. Referring to the present set up of the SECP, he said that once again you have the leadership and competence to develop the SECP into one of the best regulators of the developing world. He advised officials to perform their duties with high integrity so that no one can raise finger on your actions.

He said that only the best professionals of a society deserve to become regulators and only regulators with a deep sense of morality and integrity can adopt the policy of naming and shaming and bold enough not to be captured by the market forces.

He appreciated the Chairman SECP Mr Zafar Hijazi for initiating structural reforms and taking courageous measures to revive the SECP's reputation.

Chairman HIjazi thanked Khalid Mirza for visiting the SECP and sharing his thoughts in the light of his varied experience.

SECP warns public about defunct companies

The Securities and Exchange Commission of Pakistan (SECP) has advised the public in their own interest, to be prudent while dealing with companies whose registration has been cancelled by the SECP.

The SECP has issued the list of companies, which have ceased to exist in the last five years. So, they are no longer legal entities.

These companies were struck off either on their own choice by availing themselves of Company Easy Exit Scheme (CEES)/voluntary wind-up, or their registration have been cancelled by the Registrar due to their non-operational/dormant status.

The said list, which contains over 6,000 companies, may be viewed on the SECP's website at http://www.secp.gov.pk/CLD/cld_ceased_companies.asp.

The seminars were designed to enlighten the participants about capital markets, mutual and pension funds as investment/ savings vehicles and initiatives taken by the SECP to safeguard investor interests.

SECP adopts stringent measures for market surveillance

The Securities and Exchange Commission of Pakistan (SECP) has strengthened its monitoring and surveillance of trading activity at the exchanges and restructured and reinforced its Market Surveillance and Special Initiatives Department.

Stringent measures will be adopted to ensure integrity and fairness in the trading activity and to identify abusive, manipulative and irregular trading practices. With additional resources in place, the department now consists of three separate wings, i.e. the Market Surveillance Wing, the Market Watch and Development Wing and the Media and Research Wing.

This reorganization of Market Surveillance department has enhanced the SECP's capacity and effectiveness for monitoring and surveillance of Pakistan's capital markets, not just through monitoring trading activity but monitoring of the entire spectrum, including observing company announcements, index movements, media reports, rumors and speculation. All of this strengthens the SECP's position as a robust regulator and further instills confidence within the capital markets.

This emphasis on the protection of investors' interests and curtailing market abuse has resulted in 30 actions this year. This represents over 50% of the entire actions taken the previous year and almost equals the total number of actions taken the year before. In this regard, 9 actions have been taken on insider trading/front running, 2 orders have been passed under Section 22 of the 1969 Securities and Exchange Ordinance (SEO), 4 prohibitory orders under the SEO have been issued, along with 15 warning letters to market participants.

SECP establishes Islamic Finance Department

As part of its initiative to promote and develop the Islamic financial market, the Securities and Exchange Commission of Pakistan (SECP) has established an Islamic Finance Department. The department is mandated to carry out the functions of Shariah regulation and compliance, product development, market awareness, Shariah securities market development and international liaison and networking.

The SECP is entrusted with regulating a spectrum of Shariah-oriented companies, ranging from modarabas, non-banking finance, takaful and non-financial companies. The Islamic Finance Department will act as a backbone for coordination between the SECP's operational departments with the primary objective of regulating and promoting Islamic finance and Shariah compliance in the capital market.

In the late 1970s the government of Pakistan took an initiative towards eliminating riba by introducing some changes to the 1962 Banking Companies Ordinance and the promulgation of the 1980 Modaraba Companies and Modaraba (Floatation and Control) Ordinance. Modarabas are the pioneering Islamic financial institutions in Pakistan followed by the Islamic banks, takaful, Islamic mutual funds and Islamic pension funds.

At present the total Islamic financial assets of Pakistan have reached over Rs1.7 trillion, constituting around 10% of the total banking assets. Out of the total Islamic financial assets around 40% assets are directly or indirectly regulated by the SECP. They include mutual funds, modarabas, pension funds, takaful and sukuk.

SECP amends regulatory framework for NBFCs

In continuation of the numerous steps taken to improve the financial sector and to restore the confidence of the investors, the SECP under the leadership of Mr. Zafar Hijazi has approved substantial amendments to the regulatory framework for the non-bank financial (NBF) sector inviting public's comments.

The idea is to improve access to finance and promoting a culture of savings and investment, leading to increase in the participation of retail investors in the capital markets. The SECP intends to promote housing finance and enable NBFIs to play a key role in the development of formal housing finance sector.

The proposed regulatory framework has also strengthened the fit and proper criteria for the promoters and majority shareholders of the NBFIs to ensure that the best suitable people are at the helm of affairs of the NBFIs. A balance has been struck between the inherent risk in the operating structure of the NBFIs and the level of regulatory oversight and conditions imposed upon them.

In order to ensure the management of NBFIs in line with the best practices, board of directors has been empowered to take ownership and act proactively. Moreover, to create specialization and focus on their operations, the NBFCs are also being categorized as lending NFBCs, fund management NBFCs and advisory NBFCs.

The drafts of the proposed regulatory framework have been placed on the SECP's website. Comments from the public and other stakeholders in this regard have been sought by March 19, 2015.

ISOCO WEBINAR

IOSCO Asia Pacific Regional Committee (APRC) Chair, the Hong Kong SFC, as part of our regional capacity building initiative, had invited the SECP to participate in the inaugural 2014 APRC webinar on risk-based supervision. This was the first time that the APRC, and possibly IOSCO, was using technology to stream real time training presentations over the Internet to connect with the members.

Accordingly, T&OD in coordination with SDER organized a webinar on behalf of IOSCO APRC on "risk-based supervision" on November 10, 2014. Participants from within the SECP in Karachi and Islamabad participated in the webinar.

Mr. Stephen Po, Chair of 1OSCO Committee 3 on the Regulation of Market Intermediaries and head of the Hong Kong SFC's Intermediaries Supervision Department, made a presentation on market intermediaries' risk-based supervision programs and shared his expertise and experiences in this area. The program covered intermediaries such as brokers, fund managers and financial planners. Further, there was a Q&A session during the last 30 minutes of the webinar, where Mr. Salman Hayat, AD, SDER, typed in views and questions and the presenter responded verbally via live streaming.

Corporate governance enforcement workshop with IFC

In coordination with the Chairman's Secretariat, Training and Organizational Development Wing facilitated a focus group discussion conducted by representatives of the International Finance Corporation (IFC). The event via video conferencing connected our internal audiences from Lahore, Karachi and Islamabad and relevant participants of the stock exchanges.

The objective of this focus group was for IFC to assess through interaction with the relevant stakeholders, the need for training in corporate governance and how it may fund specific trainings in this regard to help the SECP and market intermediaries.





SECP EMPLOYEES ADOPT A RESOLUTION AND

MAKE A COMMITMENT

In continuation of the Pakistan Day celebrations being observed across the country, the Securities and Exchange Commission of Pakistan (SECP) also organized an event to mark the occasion.

Addressing the gathering, Chairman Hijazi said one way of expressing gratitude to God for blessing us with Pakistan is to make a commitment that we would all work with utmost integrity.

He asked the employees to be conscious of the fact that they are the regulators and only the best persons of a society deserve to occupy this position.

Chairman Hijazi said this day demands that we renew our resolve to work harder for the development of our motherland.

Hence a resolution was adopted in which the employees and officers expressed their determination that as regulators they will perform their responsibilities honestly, efficiently and with full vigour in the interest of the country and the organization.

All the SECP employees further resolved to make the SECP an exemplary organization by keeping it free of bribery and corruption. They pledged to maintain secrecy of official information and that nobody would let external pressure or personal relationship affect their work in any way.

They also resolved that they would perform their duties to the best of their ability to make the SECP an effective organization, which plays its full role in the economic progress of the country.


خیال رکھنا
KHAYAL RAKHNA

SECOND SECP

TABLE TENNIS TOURNAMENT

The Department of Training and Organizational Development (T&OD) organized the second SECP Table Tennis Tournament 2014 in the months of November and December 2014 at the SECP's head office. The objective behind organizing this tournament was to encourage healthy activities among employees and to provide employees with the opportunity to interact with each other in a casual and friendly environment.

There was healthy participation in a competitive yet jovial atmosphere. At the grand finale of the tournament, Mr. Zafar Abdullah, the then Commissioner, SSD and SMD, graced the prize distribution ceremony 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. **The following players participated in the tournament**

Men's singles category:

Awais Ali, Mirza Arif Baig, Muhammad Younas, Imran Khan Baloch, Kamal Ali, Muhammad Asad Saeed, Shakil Chaudhary, Khurram Hasan, Hammad Ahmed, Haroon Rashid, Imran Saeed, Imran Hussain Minhas, Muhammad Afzal, Omer Gulzar, Rizwan Haroon, Usman Ahmad Malik, Talha Monis, Akif Saeed, Khawaja Ammad Masud

Men's double's category:

Awais Ali and Mirza Arif Baig, Imran Khan Baloch and Muhammad Younas, Kamal Ali and Muhammad Assad Saeed, Umar Yahya and Khawaja Ammad Masud, Haroon Rashid and Imran Saeed, Imran Hussain Minhas and Muhammad Afzal, Muhammad Azim and Hammad Ahmad, Talha Monis and Usman Ahmad Malik, Rizwan Haroon and Junaid Tariq, Aoun Abbas Zaidi and Khurram Shahzad, Arslan and Mirza Shoaib Baig.

Women's singles category:

Nazish Zubair, Kashfa Mahmood

Champions and Runners-up

Champions

Champions Men's Singles
Khurram Hassan

Champions Women's Singles
Nazish Zubair

Runners-up

Men's Runners-up
Awais Ali

Women's Runners-up
Kashfa Mahmood

Champions

Champions Men's Double
Awais Ali & Arif Baig

Runners-up

Runners-up Men's Singles
Kamal Ali & Khurram Hassan

DUA FOR THE MARTYRS

On December 17, 2014 all the SECP's employees gathered in the NIC Auditorium in Islamabad and prayed for the souls of deceased.

Mourners

Army Public School, Peshawar

On December 16, 2014, the Army Public School in Peshawar was subjected a gruesome terrorist attack, killing 145 people, including 132 schoolchildren. The heart-rending tragedy plunged the entire nation into a state of mourning and sadness.

Orientation Session

The SECP received a request from the Bannu-based University of Science and Technology (UST) to organize an interactive orientation session for their students at the SECP headquarters.

The SECP gladly accepted the request to fulfil its duty as a responsible corporate citizen, because the UST is located in an area stricken by terrorism and poverty, which borders North Waziristan. There is neither vibrant industry in its surroundings nor any renowned financial institution that could provide its students the opportunity to see the world of practice through the lens of theoretical knowledge.

The event arranged by T&OD contributed immensely to the exposure of the visiting students who interacted openly with the SECP's senior representatives of various departments, who specially found time to formally present an overview of their departments' operations. The event was held on December 15, 2014, at the training room on the third floor. It was followed by lunch for the visitors.

In-house workshop on 'The Finer Points of Professionalism'

The T&OD Wing in the past had organized training programs on staff etiquette, personal hygiene and professional decorum for non-clerical staff of the SECP in Karachi, Lahore and in Islamabad.

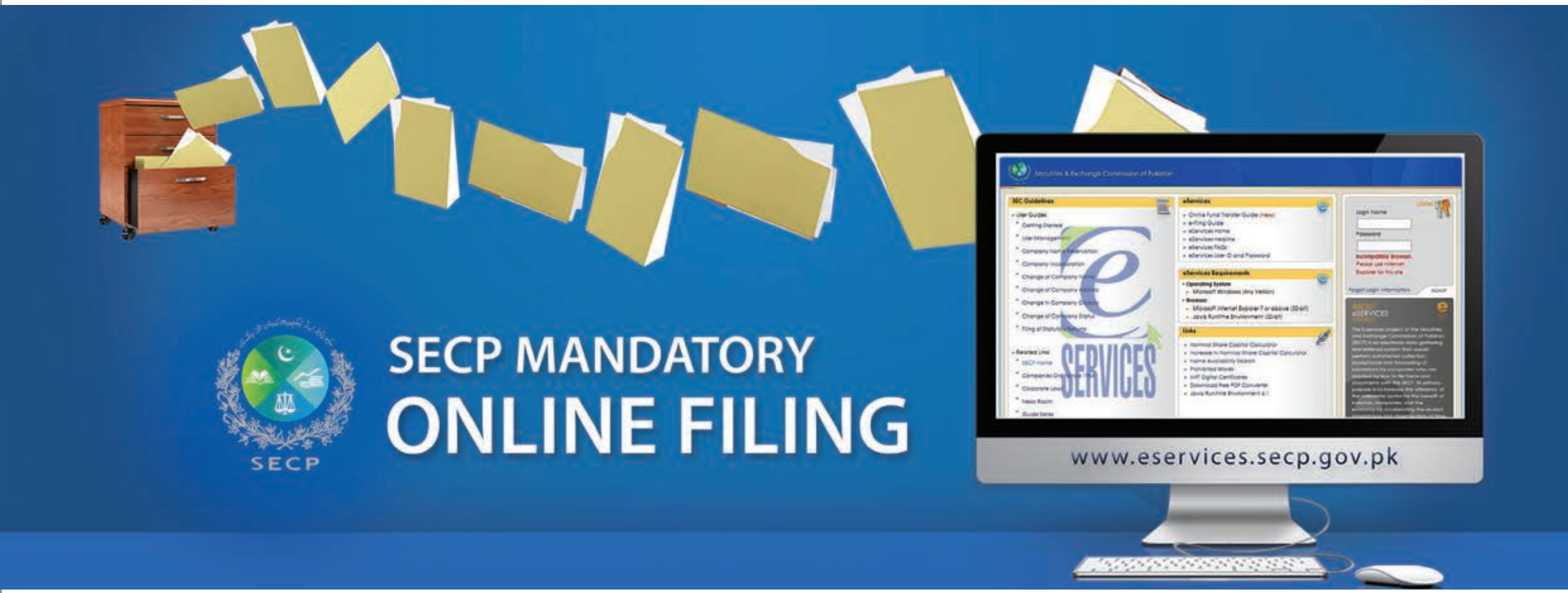
Following the success of these workshops, and upon numerous requests from various departments, T&OD proceeded to develop an advanced version of this workshop relevant to the SECP's management cadre employees and rolled out its first workshop on this topic on December 2, 2014. This session too received highly positive feedback.

The objectives of these training sessions were as follows. In this 3 hour session, participants learnt unique and interesting facts about:

- Claud Shannon and Warren Weaver's world renowned "WOVEN" and its relevance to professional communication
- International and domestic professional attire requirements for gentlemen and
- Continental, American, Asian and subcontinental 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 luncheons and dinners.



SECP's initiatives for paperless environment

Shane Coelho

A paperless environment compared to a paper-based environment leads to greater operational efficiency, rising profitability and increased customer satisfaction. As digital technologies evolve with advanced capabilities, they have proven to be more cost-effective. In order to achieve improvement in regulatory compliance, eliminating loads of paperwork has been one of the key objectives of every modern regulator.

Since its inception in 2008, the e-Services project has been evolving. In fact, it has undergone significant transformation. The Securities and Exchange Commission of Pakistan (SECP) is continuously rethinking the governance standards to establish a unified platform for filing, retrieval and dissemination of information of statutory returns, including quarterly, half yearly and annual accounts submitted by the registered corporate entities.

The project which was initially fashioned with a basic framework for online incorporation of companies and filing of statutory returns has now progressively advanced in technology. Effective September 2014, vide S.R.O. 593(I)/2014, the SECP has implemented the mandatory submission of documents through e-filing by various companies registered entities under the 1984 Companies Ordinance. The requirement of mandatory online filing now extends to categories such as public companies (listed and unlisted), private/single member companies having paid-up capital of Rs50 million or more, all non-profit organizations registered under Section 42 and trade bodies, etc. Through the said statutory regulatory order, it has now become mandatory for all of the above categories of companies to submit documents, returns, accounts and applications online through the eServices portal.

Being compatible with its intended user's ability to use it easily and successfully, the advantages of the requirement for mandatory online filing are manifold:

- providing solutions that will help companies, organizations, SOEs, institutions to achieve better operational efficiency bringing them at par with international best practices
- increasing the regulatory compliance
- enhancing efficiency in delivery of services
- improving the quality of data management being more analytical and informative
- reduced fee structure in contrast to physical filing of documents and
- secured data storage

The companies registered under the 1984 Companies Ordinance have exhibited a receptive attitude towards the various policies implemented by the SECP. As a consequence of the new requirement, during the October-November period a phenomenal surge of documents (returns/accounts) were submitted through e-filing.

By creating a decisive and integrated electronic linkage will surely go a long way towards complementing the efforts taken by the SECP in its quest to achieve its primary mission to develop a robust regulatory system, which is imperative for the development of the corporate sector and ultimately for the growth of national economy.

Insights on Islamic finance

Imran Hussain Minhas

Riba, the major driving force and key element in the conventional banking, is one of those items which have been strictly forbidden and declared haram (forbidden) in Islam. The convention banking and finance system is not meant for the Muslims. Practicing riba-based banking and financial system is sinful and destructive for the Muslims for which primarily the state shall be held responsible. It is true that the modern economies cannot survive without a sound financial system, but it is not necessary that it should be based on conventional banking practices and riba. A modern Shariah-compliant solution of conventional financial system is no longer a pipe dream.

Islam is a complete code of life, and it has laid down comprehensive set of rules to run the social, political and economic system. The subject of Islamic economics, banking and finance is covered under the muamulat. Ijma and qiyas are the methodologies being used by the Shariah scholars to provide Shariah-compliant solutions to the financial problems of the modern age. It is believed that the creation of this world is based on goodness and utility; and like Islam, every religion has goodness and utility as its basic principles. Being Muslims we believe that whatever is declared haram by Allah, has no utility for the people in this world and the hereafter. And the one, who follows the forbidden path, generates the curse of sins much greater than the utility he receives.

In order to address and eliminate riba from banking and financial system, Islamic jurists have introduced the Islamic banking and finance (IBF) system, which encourages entrepreneurship, trade and profits by discouraging riba. The IBF is the value system which is governed by the principles and rules established by the Quran and Sunnah. In addition to the conventional good governance and risk management rules, it operates to implement and materialize the economic and financial ideology of Shariah. The IBF is allowed and approved by the Islamic jurists as a riba-free and Shariah-compliant alternative for the Muslim societies.

Islamic banking and finance model is based on economic justice and is free from the element of riba, gharar, mysir, and support from haram business activities. In fact, the prohibition to engage in such transactions that extract surplus value in an unfair way with the elements of riba and gharar stems from concerns of justice and fairness. For a financial or business transaction to be viable economically and ethically, Shariah measures may include the following principles:

- Risk-sharing– The parties involved in a financial transaction must share the risk of loss of the business transaction as well.
- Materiality– The financial transaction must be linked to a real economic transaction;
- No exploitation– a financial transaction should be exploitation free; and
- Business activity must be halal (permitted) no funding to haram or sinful activities.

In the current situation the Islamic banking has proven to be a suitable alternative, which has been accepted worldwide. Today, there are more than 600 Islamic financial institutions, including government-run banks, private banks, investment companies, mutual funds, takaful companies and modarabas operating in more than 75 countries. As of 2014 the total assets of around $2 trillion are Sharia-compliant (The Economist). According to Ernst & Young, from 2009 to 2013 the Islamic banking assets have grown at an annual rate of 17.6% and they are expected to grow by an average of 19.7% a year to 2018.

History of Islamic finance

History of Islamic finance is as old as the Islam is. Some of the products such as modaraba and musharakah are being practiced before the era of the last Prophet (PBUH). In addition, salam also has endorsement of Muslims since the time of Holy Prophet (PBUH).

An early form of Islamic capitalism was developed between the 8th and 12th centuries and the economy of the period was based on currency in the form of gold dinar and many forms and concepts of Islamic enterprises apart from the state were also adopted. During the Ottoman rule, the Middle Eastern traders practiced financial transactions that were based on Shariah principles.

In the 20th century, Islamic scholars perceived 'necessary evil', and proposed a banking system based on the concept of mudaraba. In the 1920 the ruler of Bahrain asked the Eastern Bank, the predecessor Standard Chartered, that they can only open a branch on the island if it offers interest free transactions. At the same time the National Handelsbank of the Netherlands, the predecessor of ABN-Amro was allowed to provide interest free money changing services in Jeddah to pilgrims. Specific work on the subject of interest-free banking was conducted in 1955 onwards.

However, the basis of modern Islamic banking and finance were provided by the first Shariah-compliant savings bank, which was established in the Nile Delta town of Mit Ghamr, a rural area of the Egypt by an economist Ahmad Al Najjar in 1963 as Mit Ghamr Savings Project. The idea was not advertised for fear of being seen as a manifestation of Islamic fundamentalism during the Jamal Nasser regime. The Mit Ghamr Savings Project was shut down by the government in 1968.

In the 20th century, Islamic scholars proposed a banking system

Later, in 1971, it was merged with the Nasser Social Bank. The bank failed but the idea succeeded. Soon after the experience, many commercial banks in Egypt started following Mit Ghamr. The wave of modern Islamic banking also started in other parts of the world. In 1963 Malaysia introduced the Malaysian Pilgrims Fund Board (Tabung Haji) as a first Islamic investment fund. Islamic Development Bank, with its head office in Jeddah, was also established in July 1975 to foster economic development and social progress of member countries individually as well as jointly in accordance with the principles of Shariah. The first modern commercial Islamic bank, Dubai Islamic Bank, also started its operations in 1975. Islamic Bank, also started its operations in 1975. At the same time Pakistan achieved fourth position in the globe to implement riba-free financial system in the country by taking the following steps:

The Council of Islamic Ideology (CII) set up a panel of bankers and economists on September 29, 1977, which prepared the blueprint for interest-free economic system and submitted its report in February 1980, highlighting ways of eliminating interest from economy.

The Islamic finance started its journey, through presidential orders, and the 1980 Modaraba Companies and Modaraba (Floatation and Control) Ordinance was promulgated which enabled business groups to set up SME modarabas. It was a great breakthrough, which enable people to establish full fledge Islamic financial institutions under the Modaraba Ordinance.

The specialized financial institutions such as the House Building Finance Corporation, National Investment Trust and Investment Corporation of Pakistan transformed their operations in conformity with the Shariah in July 1979.

The conventional banking converted into profit and loss sharing banking by making amendments to the 1962 Banking Companies Ordinance (BCO) and on January 1, 1981, interest-free counters were established in all the public and one foreign bank operating in Pakistan and their interest bearing deposits were converted into profit and loss sharing deposits. But foreign currency deposit and debts remained on conventional interest bearing system.

In November 1991, the Federal Shariat Court (FSC) declared that the system of profit and loss sharing adopted in the banking sector was not in accordance with the teachings of Islam. However, the regulatory framework under the Modaraba Ordinance was not declared un-Islamic. Against the order of the FSC, a request was made in the Shariat Appellate Bench (SAB) of the Supreme Court to review the order.

On December 23, 1999, i.e. after eight years, the Supreme Court rejected the appeal by declaring the efforts towards Islamic banking un-Islamic and that the interest-based system shall cease to have effect by June 30, 2001. The Supreme Court gave its decision that currently interest-based system would be shifted according to the principles of Shariah, as soon as possible.

In 2001, on the appeal of United Bank, the SAB extended its earlier deadline to June 30, 2002.

On June 24, 2002 the SAB reversed its own decision of 1999 and remanded the case back to the FSC for re-determination.

In the meantime, the Government of Pakistan (GoP) formed a Commission for Transformation of Financial System (CTFS) under the supervision of the State Bank of Pakistan. The CTFS submitted its final recommendations in August 2001, for creating a legal Shariah-compliant infrastructure for shifting of the economy and conversion of the entire financial systems in accordance with Shariah and interest free system

in a phased manner without causing any disruptions to the economy and banking system. Separate Islamic banks were allowed to operate in parallel to conventional banks. In addition, the following three institutional options were provided:

- Setting up an independent and dedicated Islamic bank
- Setting up an Islamic banking subsidiary of a conventional bank
- Setting up dedicated Islamic banking branches of a conventional bank

1. In January 2002 first Islamic bank of Pakistan got license and now there are five full-fledged Islamic Banks and 15 conventional banks are offering Islamic banking services through their window or dedicated branch networks. In 2014 the total assets of Islamic banking and finance of Pakistan have reached to over Rs1.5 trillion with the major share of Islamic banking which is over Rs1 trillion.
2. Recently, in 2013 the GOP has formed a 'Steering Committee for promotion of Islamic Banking' to speed up work on Islamization of financial system, banking and capital markets of Pakistan.

The writer is a joint director in the Islamic Finance Department. He earned his master's in commerce from Punjab University. He has also obtained several certifications from the United Nations Institute of Training and Research, Geneva. The views expressed here are those of the author, and do not necessarily reflect those of the SECP.

SECP

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