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INSIDE

Second SAARC insurance regulators meet and international conference

By Sabahat ul Ain and Israr Khan

In April 2014, the SECP hosted the second SAARC Insurance Regulators Meet and International Conference in Karachi which was attended by over 500 delegates from around the world. Attendees included: Insurance regulators, commercial entities representing diverse fields, financial and corporate sector, international development agencies, and state authorities of the entire SAARC region and delegates from developed countries. The conference was supported by the World Bank, the Asian Development Bank, and the ILO Microinsurance Innovation Facility. In addition, Asia Insurance Review, and the Middle East Insurance Review were the international media partners, while the Business Recorder was the national media sponsor. It may be noted that the First SAARC Insurance Regulators Conference was held in Dhaka in 2013.

The conference theme was "Local to Glocal", which is a combination of globalization and localization; a term denoting the adaptation, specific to each locality or culture, and is similar to internationalization.
The three-day event started on April 14, with a meeting of the insurance regulators of the SAARC countries to discuss the significance of developing a shared vision for progress of the regional insurance industry and extending cooperation in the area of insurance regulation and supervision.

It is indeed a matter of pride for the SECP that Mr. Mohammed Asif Arif, the Insurance Commissioner, was elected as the Chairman of the SAARC Insurance Regulators Forum.

The regulators meeting chaired by Mr. Mohammed Asif Arif, deliberated on the formation of the secretariat of SAARC Insurance Regulators Forum. The secretariat is expected to serve as the center for all activities of extending support and cooperation among the SAARC member countries. The Insurance Regulators Forum's secretariat will be affiliated with the SAARC secretariat and will bring about convergence between various cooperation initiatives. Two committees were established with membership from among the SAARC countries, with the task of proposing structure of the secretariat, and specifying areas of cooperation within the next three months, and development initiatives to be implemented within six months.

A pre-conference workshop organized by the Asian Development Bank (ADB) was conducted on the sidelines of the event to educate the insurance regulators of the region about proportionate regulation and risk-based supervision which is a fast approaching global trend. The regulators actively participated in the workshop and discussed the problems and possibilities of introducing risk based supervision and enterprise risk management framework in their respective jurisdictions.

The conference formally opened on April 15, 2014. Federal Minister for Inter-provincial Coordination, Mr. Riaz Hussain

Tahir Mehmood, Chairman,SECP, SM Muneer, Chief Executive, TDAP, Riaz Hussain Pirzada, Federal Minister for Inter-provincial Coordination, Dr Musadik Malik, special advisor to Prime Minister, Mohammed Asif Arif, Commissioner, Securities and Exchange Commission of Pakistan, Saifuddin Zoomkawala, Chairman of the Committee on Finance and Insurance, SAARC Chamber of Commerce and Industry.

Mr. Mohammed Asif Arif, Commissioner (Insurance) chaired the Regulators Meet on April 14.

Pirzada, was the chief guest. Mr. S. M. Munir, Chairman of Trade Development Authority of Pakistan was the guest of honor. A panel discussion on the way forward for the national microinsurance schemes was chaired by Dr. Musadiq Malik, Special Advisor to the Prime Minister.

Mr. Tahir Mahmood, the SECP Chairman, lauded the SECP team for its efforts and commitment in launching multiple initiatives for the strengthening of the insurance sector. The conference was well attended by SECP officials, including the SCD Commissioner, Mr. Imtiaz Haider, and heads of various other departments.

In addition to insurance practitioners, various eminent officials from the government sector appreciated SECP's efforts for enabling and providing an opportunity for global practitioners to mingle with each other and stimulate collaboration that goes beyond the borders. “This conference would be an important milestone in the history of cooperation among the SAARC nations and will enhance regional integration,” said Mr. Riaz Pirzada while addressing the conference.

Many renowned practitioners gave technical presentations on various topics. Mr. Nadeem Hussain, CEO, Tameer Microfinance Bank, spoke on the role of microinsurance in enhancing financial inclusion across the country. Mr. Arup Chatterjee, senior financial sector specialist from the Asian Development Bank, spoke on the significant role of insurers in financing infrastructure investment. Technical presentations on the topics of political risk insurance supporting foreign direct investment, and risk-based supervision were given by ADB's Mr. Martin Endelman and the World Bank's Mr. Craig Thorburn. The first day of the conference closed with the knowledge studio session on disaster insurance and

catastrophe risk financing. Mr. Faraz Uddin Amjad, Joint Director (Insurance), moderated the panel discussion.

Three panel discussion sessions took place on the second day. The CEOs of insurance companies of SAARC countries deliberated on removing the bottlenecks, and discovering the groundbreaking primers with respect to innovation, global trends, and evolving markets. The regulators of SAARC countries had an animated discussion on the evolving regulatory practices amongst emerging markets and exchanged views on the issues and projections for the regulators in the prevalent situation. The day also included technical presentations by renowned speakers and delegates from development organizations such as the World Bank, the Asian Development Bank, GIZ, ILO Microinsurance Innovation Facility, and various local bodies, including PPAF and the CDC. The delegates spoke on the significance of developing inclusive insurance markets that could cater to all segments of the society including the poor and low income classes, which are generally ignored by the main stream insurance. The roadmap that could be adopted for achievement of this global objective was also discussed.

Apart from the technical knowledge exchange, informative sessions and unique opportunities to build cross border associations and alliances, the event also highlighted Pakistani style hospitality, which made this event a lifetime experience for the foreign delegates. On April 14, a sumptuous welcome dinner was organized for the guests at the Port Grand, which is a spectacular venue in Karachi. There was an arrangement for western cuisine and live western music in the open air. The first day of conference April 15, was enriched with a spectacular program of musical night and grand dinner at the historical site of Mohatta's Palace. The venue was chosen, so as to give the foreign delegates and guests, a glimpse of the heritage and culture of Pakistan. The musical night comprised of performances of cultural dances of the four provinces, and songs by versatile singers.

The speakers were given unique mementos made of camel bone, while the foreign guests were presented with a book on pictorial journey through Pakistan and *desi* sweets.

It may be noted that the electronic and print media covered the event in its entirety. The conference was covered by over 25 media organizations, including Bloomberg and Reuters which

Musical night and gala dinner, including cultural dance performance at the historical site of Mohatta'a palace was a perfect treat to the conference participants.

interviewed the Insurance Commissioner, delegates from SAARC countries, ADB and the World Bank.

The delegates of regional and international bodies were of the view that such partnership building activities should take place more frequently to enable more effective knowledge and experience exchange across the borders. The conference closed with a thank you note from Commissioner (Insurance) Mr. Mohammed Asif Arif, who appreciated the will and commitment of regional partners to proceed towards collaboration, and also appreciated the international bodies that had contributed to the venture and extended their support.

The initiative has not only helped improve image of Pakistan by presenting a soft, positive and progressive side of the country, but has also enabled so many professionals and practitioners to compare notes on the problems and prospects of the regional and international insurance industry. The event was a resounding success and the delegates seemed to be touched by the hospitality of Pakistanis. .

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Overpopulation is Pakistan's worst enemy

By Shaukat M. Malik Khichi, CPA

Wealthy nations with large concentrations of population in their major cities have developed the infrastructure for provision of electricity and water, state-funded healthcare, a cradle to grave welfare system for the needy, and a developed railway system for transporting goods and passengers at a reasonable price. However, unlike Pakistan these nations have a large tax base; a population with higher levels of education that practices family planning and social responsibility; have generally good relations with their neighbors; and are not threatened by resident terrorists and a war next door.

We do share their democratic system as confirmed by peaceful transfer of power from one elected government to another for the first time in the history of Pakistan. Unfortunately, Pakistan is handicapped by a very small tax base, since millions of small businesses simply do not pay any tax, and there is a pervasive culture of tax evasion. We simply do not have the financial resources to provide for our ever increasing numbers. Insufficient resources will invariably lead to inadequate and poor services in areas such as, law enforcement, education, healthcare, social services, basic needs for food, housing, water and electricity, and transportation infrastructure to name a few.

In the absence of family planning, every new addition to the population that cannot be supported by available or future resources will add to the general unhappiness. Overpopulation without accompanying employment opportunities condemns poor desperate individuals looking for work to accept unreasonable wages, and to a life of misery and hopelessness. For example, helpless Pakistanis looking for a better life have died in cargo containers, and on boats trying to enter wealthier European nations illegally. Many Pakistanis in the Middle East are forced to live in Jail-like living and working conditions, while their employers hang on to their passports for blackmail.

Education is indeed a game changer and we must keep adding to our school system. Unfortunately, overpopulation is overwhelming Pakistan's underdeveloped education system. It is estimated that each day there are at least 10,000 more children waiting to enter Pakistan's school system. Surplus children who end up illiterate without any skills cannot find work because there are simply not enough jobs and will invariably become tomorrow's beggars, thieves, terrorists, and suicide bombers.

Just as financial planning is needed for a secure retirement and meeting our monthly recurring expenditures, family planning (that is, managing the size of a family through birth control) is essential in today's competitive world to balance population size with available resources. It may be noted that Pakistan had an elaborate family planning system right up to the mid-70s. However, following our unfortunate involvement in the Afghan war and the accompanying foreign influences that it brought to Pakistan, our focus on family planning issues has been absent.

What can be done to fight overpopulation?

All members of society, especially the healthcare and education sectors both public and private must participate equally to overcome this problem. The government can play a leading role since it has the regulatory and administrative powers needed for jump-starting a nationwide family planning initiative.

The following must be done on an urgent basis:

- Pharmacies throughout Pakistan should be required by the Drug Regulatory Authority of Pakistan (DRAP) to advertise family planning banners at their entrance, and also facilitate and encourage purchasers of family planning related products by providing separate counters ;current practice of shame associated with selling of family planning products must be countered through education

- Family planning centers should be opened throughout Pakistan starting with a mandatory requirement for existing government and privately owned hospitals to open family planning centers; these centers should provide basic healthcare education to the largely illiterate population (both men and women); funding should be provided by the government and donor organizations

- Pakistan's political leadership must engage local religious leadership in their respective constituencies, and persuade them to see the bigger picture of future economic prosperity through controlled population growth. If Iran and Bangladesh can do it, so can Pakistan. The leadership should not be afraid to speak on the issue of overpopulation and the damage it is causing to the quality of our lives and future prospects

- Girls' only schools, destroyed by the Taliban, should be rebuilt in remote conservative areas where established culture is against female education; this in turn will encourage families to send their daughters to school and for educated girls to embrace family planning

- The aid agencies in partnership with the government must help establish healthcare and family planning centers in Pakistan's remote areas; these centers can also provide Polio vaccination

- A mobile hospital system should be developed with help of donors to provide and administer healthcare, vaccination, and family planning services to illiterate and poor citizens in our rural areas

- Pakistan's armed forces, whose soldiers come from many remote areas, should be educated concerning family planning and smaller families. Trained soldiers can be used to bring home the message of family planning to their respective villages

- Training centers for teaching a trade such as, plumbing, electrician, masonry, cooking, auto repairs, machine operator etc., should be established throughout Pakistan for teaching unemployed Pakistanis, and enabling them to become future contributing members of our society; faculty for such centers can be obtained from established businesses

In parallel with the measures outlined above, and to bring awareness to the masses about the facilities being made available, the government should launch a media campaign to bring home the message of family planning. The media campaign strategy should include the following action items:

- Pakistan Television(PTV) should produce and broadcast short films featuring the health and economic benefits of a small family, with information about where to obtain family planning services

- Private television channels should be required by Pakistan Electronic Media Regulatory Authority (PEMRA) to provide free air time for family planning messages, especially during their most popular shows; private channels can be encouraged by PEMRA to produce short films with a touch of humor to bring home the message, and the benefits of a small manageable family

- Newspapers should carry supplements on the benefits of family planning for the family members, especially in regards to the health of children and women

- Federal and local administration and military cantonments should arrange for display advertising along the motorway, major highways and bridges to brings home the message of family planning and its benefits

- Cinemas should show short humorous films to bring home the message during intermission

We must re-educate our population about family planning and its benefits. Pakistan government, both federal and provincial, private hospitals, and aid charities must join hands to safeguard the future of tomorrow's newborns. Pakistan is at the crossroads of prosperity once again with extraordinary efforts underway to fight terrorism and reviving its economy.

In summary, a newborn joins our community through nature's miracle, and our poor planning is not his/her fault. It is up to us to plan, and to ensure that every newborn has a life full of promise and the pursuit of happiness as opposed to one of misery. Family planning allows us to do this; to ignore it would be disastrous.

The writer is a Certified Public Accountant (CPA), US equivalent of a Chartered Accountant. He works as a consultant in the SECP's Chairman's Secretariat. The views expressed in this article are those of the writer and do not necessarily represent the SECP's position.

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Reinventing business registration in Pakistan

By Waseem Ahmad Khan

Introduction

Facilitating business registration and corporatization of economy is the area of business regulatory policy that has attracted increasing attention from policymakers over the last decade. According to the World Bank's Doing Business (DB) Report, 2013, a total of 368 business registration reforms took place in 149 economies between 2003 and 2012, resulting in the world average time to start a business falling from 50 days to 30, while the cost of starting a business falling to one-third of what it was.

Despite these reforms, the economies of the developing countries are characterized by informality in their economic activities, with a great majority of their business entities operating as micro and small-sized enterprises within the informal, undocumented sector. By formality, we mean whether a business is registered with the relevant business registration and the tax authorities.

Benefits of formalization and corporatization

Although unregistered business entities, taken collectively, are no more seen as a shadowy and non-productive sector of the economy, it cannot be denied that the formalization of such business entities is likely to bring about significant benefits not only for themselves, but also for the consumers, the government, the society and the country at large.

By opting for the corporate form, the businesses get enhanced protection under the law by becoming capable to limit personal liability of their members, having access to newer or lower cost financing sources, becoming capable of concluding legally enforceable agreements with customers and suppliers, expanding business activity territorially without any government approval, etc. The governments have access to expanded tax base, besides having increased knowledge of economic activity. For consumers, employees and society formalization and documentation results in improved income distribution, enhances transparency and accountability, and results in increased economic growth.

SECP's Corporatization Efforts

As enshrined in the preamble to the 1984 Companies Ordinance, the growth of corporate enterprises is one of the primary objectives of the SECP. Ever since its establishment in

1999, the SECP has introduced a raft of reforms aimed at providing a facilitative environment for the business entities to corporatize and undertake their activities in an organized and documented manner. These reforms include introduction of the concept of single-member company, modernizing the functions of Company Registration Offices (CROs), issuance of guidelines/guide booklets, market development initiatives including abolition of stamp duty by the provincial governments and reduction in corporate tax rate by the federal government resulting from consistent follow-up by the SECP, pursuing the government to introduce the concept of a small-sized company with lesser tax burden, delegation of powers to the registrars concerned, introduction of fast track registration scheme, development of model memorandum and articles of association for major business sectors, development of facilitation counters at the CROs, regular interaction with stakeholders, etc. The reforms have also focused on automation of the business processes including the launch of the SECP's flagship eServices in 2008, scanning and archiving of documents, increasing use of website to deliver business services, etc.

Global practices in business registration

Of the 189 economies surveyed in the DB Report, 2014, putting procedures online leads the list of reforms undertaken with 109 countries automating their doing business processes, followed by elimination of minimum capital requirement (99 countries), and establishment of a one-stop shop (96 countries). An earlier version of the report cites creating or improving a one-stop shop as the most popular reform feature since 2004, with integrated business and tax registration being the most adopted model.

A one-stop shop (OSS) is by and large an organization that receives documents for business registration and also carries out at least one other function related to business start-up, for instance, tax registration, registration for social security and statistical purposes. The OSSs were introduced in the 1980s as a vehicle to deal with administrative barriers to provide a more streamlined and investor-friendly policy environment.

At present, the global business environment is characterized by diverse practices followed for business registration purposes. In some countries all businesses have to be registered, in others, only those companies with a legal existence separate from their owners. In some countries, registration is the responsibility of the courts; in others, it is an administrative function handled by a government ministry, semi-autonomous agency, or chamber of commerce.

In view of the wide variety of registration mechanisms, it is not surprising that measures taken to establish OSS also varies significantly. Some countries have established physical OSSs, hosting different regulatory functions including company registry, tax registration, customs, social security, etc. under one roof. Still others have opted for the online mode, combining online services offered by different agencies in one website portal or a Virtual OSS. Some OSSs automatically forward information from the company registry to business licensing authority, as in Ethiopia. Others include separate desks with representatives from different agencies, as in Zambia. And still others provide a single electronic interface for entrepreneurs, as in Denmark, New Zealand and Norway.

A virtual business OSS in Pakistan

In order to facilitate the entrepreneurs and investors and ensure an expeditious service delivery, the implementation of a virtual (online) OSS for integrating corporate, tax and employers' registrations is underway. The registration through OSS would not be mandatory, but may be opted by the investors who want to make efficiency gains from lesser turnaround time and fewer procedures to complete.

An MOU for the establishment of a virtual (online) OSS for company registration has been signed by the SECP, the Federal Board of Revenue and the Employees' Old-Age Benefits Institution, with the supervisory role played by the Economic Reforms Unit, Ministry of Finance. It needs to be mentioned that these authorities have been chosen for having already automated their business processes and in view of being relevant for business start-up purposes. In the long run, and after the launch of the virtual OSS, it is contemplated to strategize ways and means to expand the scope of OSS so as to include other regulatory authorities in the virtual and/or physical modes, in consultation with the Government.

Conclusion

The performance of different types of OSSs vis-à-vis standalone authorities can be evaluated through the following analysis, allocating the 183 jurisdictions covered by the WB 2010 DB Report:

Comparative performance of the types of OSS

			Average		
		No. of countries	No. of procedures	No. of days	Ranking (out of 183)
A.	Commercial Registry with other bodies on the same site	7	7.0	24	99
B.	Commercial Registry with other bodies on same site	20	6.7	19	61
C.	OSS (not a commercial Registry) which liaises with other bodies	13	6.3	27	98
D.	Integrated Registration function	12	5.8	13	49
E.	Online Registration facility	15	5.2	14	48
All countires with OSS		67	6.1	19	67
F.	Other countries	116	9.3	46	106

Source: Doina Business Database

From the above analysis, it is evident that countries with OSSs have performed significantly better than those without, resulting from lesser number of procedures to be completed and days taken for investors to start up their businesses.

Moreover, international experience also suggests that at the core of an OSS lies policy reform, rather than short-term and ad hoc solutions to the problems faced by investors. This is a time-consuming political process which cannot be achieved overnight. Undoubtedly, a strong OSS can serve as the key catalyst in such a policy reform process. With strong political support from the government, the various authorities can streamline and remove structural weaknesses in their business processes that may require more fundamental reforms. The challenge lies in avoiding turf battles between the relevant authorities and eliminating the risk of turning the OSS into yet another stop or a bureaucratic superagency in the business start-up process.

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Developing the CSR culture

By Fozia Parveen

The corporate social responsibility (CSR) is a win-win approach for companies and society. The World Bank defines it as the "commitment of business to contribute to sustainable economic development by working with employees, their families, local community and society at large to improve their life, in ways that are good for business and development."

The concept of CSR is that the companies run their business and make profits by utilizing human and natural resources available around them. It causes depletion of these resources and also has a negative impact on the environment and the community. The business entities are socially and ethically expected to show responsible behavior towards its society and compensate by involving it in social welfare activities. The companies do not operate in isolation. They have to interact with customers, suppliers, employees and other stakeholders. The CSR is all about managing these relationships which could produce an overall positive impact on society. The CSR activities may be viewed in two aspects. One is companies providing funding and resources for social causes, i.e. giving charity, initiate or support educational or health activities, etc. The other aspect is to provide services or products that are in the best interest of the society, i.e. using safe material in products, proper disposal of hazardous factory waste etc. There are many ways by which a business entity may show its commitment and respect for society and community as whole. It has many benefits for companies, community, the public and environment. Here are some of the benefits:

1. Company benefits

- Improved financial performance (academic studies have shown a connection between socially responsible business practices and positive financial performance)
- Lower operating costs (improved work practices reduce cost)
- Enhanced brand image and reputation
- Increased sales and customer loyalty
- Greater productivity and quality
- More ability to attract and retain employees
- Reduced regulatory oversight (less scrutiny by the regulators)
- Access to capital
- Workforce diversity
- Product safety and decreased liability

2. Benefits to the community and the general public

- Charitable contributions
- Employee volunteer programs
- Corporate involvement in community education, employment and homelessness programs
- Product safety and quality

3. Environmental benefits

- Greater material recyclability
- Better product durability and functionality
- Greater use of renewable resources
- Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

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Internationally, the government's stance on the CSR reporting varies across the world from a voluntary to mandatory requirement. There are mandatory CSR reporting requirements in Sweden, Norway, the Netherlands, Denmark, France, and Australia. While there are some jurisdictions where the CSR reporting is voluntary; however, companies are under increasing pressure to demonstrate that they are responsible citizens and prefer to report CSR activities (even it is not mandatory). According to KPMG's 2013 International Corporate Responsibility Reporting Survey, the highest growth (since 2011) in the percentage of companies reporting their CSR initiative is seen in India rose from 20%—in 2011—to 73%—in 2013—secondly Chile rose from 27% to 73% and thirdly Singapore rose from 43% to 80%. The survey further reveals that CSR reporting rates in the Asia Pacific region have increased dramatically by 22% —from 49% in 2011 to 71% in 2013—over last 2 years.

In India, new legislation has been introduced recently whereby it is mandatory for certain class of companies to spend 2% of their average net profit made during immediately preceding three financial years on the CSR activities under the Section 135 of the 2013 Companies Act. Furthermore, it is also mandatory in India for certain class of companies to constitute a CSR committee having three or more directors. With the new legislation, India would possibly become the first country to have CSR spending through a statutory provision.

In Pakistan, the government has made concrete efforts to promote the CSR culture. The SECP has issued the Companies (Corporate Social Responsibility) General Order, 2009, whereby the public companies are required to disclose their CSR activities—in descriptive and monetary terms—for each financial year in director's report to members. The format of description and level of detail of these CSR activities to disclose is left at the discretion of the companies. Further, recently, the SECP has also issued Corporate Social Responsibility Voluntary Guidelines, 2013, which are voluntary in nature. These guidelines focus on the internal mechanism of the CSR—CSR governance, consultative committee, CSR management system, CSR implementation structure, allocation of resources to CSR—and external assurance as well. The companies are required to form a separate CSR report, which may include the CSR policy, activities, CSR objective, working module, implementation status, impact/achievements, risks, opportunities, challenges and working partners. It is expected that these guidelines will prove a milestone to develop a strong CSR culture. However, we cannot afford to be overly optimistic in this regard. It is indeed a huge task to create awareness about CSR in society.

The government is also making efforts to recognize the CSR services rendered by the companies. On February 8, 2014, Prime Minister Nawaz Sharif conferred a gold medal on the National Bank of Pakistan for its CSR initiatives.

However, the reality is that CSR has yet to take a firm root in our country. There is a dire need to launch a massive awareness campaign about CSR so that social pressure could be brought to bear on the companies to initiate their CSR activities. A focused effort may be made to persuade economically significant companies (ESC) to make major contributions to the CSR activities. The 2013 guidelines for CSR 2013 encourage external assurance on the contents of the CSR report. It is suggested to develop a list of approved external assurance experts in order to maintain quality of external assurance. An awards program may be initiated by the government under which letters of appreciation may be issued to companies making CSR contributions in order to acknowledge their efforts. The companies involved in the CSR activities may be given preferential treatment and tax benefits. These steps are absolutely necessary if we want to develop the CSR culture in Pakistan.

The writer is deputy registrar at the SECP's Multan office. She is an Associate Member of the Chartered Institute of Management Accountants (CIMA-UK), the Institute of Cost and Management Accountants of Pakistan (ICMAP) and the Pakistan Institute of Public Finance Accounts (PIPFA). She did her MBA from Bahauddin Zakariya University, Multan.

Adabi nashist






The adabi nashist organized by the HR department to remember Ghalib and Iqbal. Over 100 of SECP team members participated in the SECP's first ever literary event. Many individuals actively recited wonderful poetry, both original and that of renowned poets of the sub-continent in addition to that of Ghalib and Iqbal. It was heartening to see both female and male colleagues participate in these recitals.

There were moments of reflection, merriment, melancholy and selfless laughter and for those of you who could not become a part of this wonderful evening, we hope that you will attend the next one after hearing about this event's fabulous success.

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Hiking trip






HR&T organized a Hiking Trip at the hiking trails of the margalla hills in Islamabad. A number of SECP employees participated in this activity that involved collecting litter like wrappers and PET bottles which had been carelessly dropped in the bushes along trails 3 and 5 by hikers, and disposing it off properly in bins. Most of the participants ended up with several bags full to trash that they finally put away in garbage cans thus fulfilling their corporate social responsibility.

The hiking participants were served refreshments. Some employees also ventured into smaller trails to extend their hiking trip as to enjoy the marvelous weather. Upon returning to base outside the Islamabad Zoo, employees took pictures with a live anaconda snake being displayed by an animal show artist.

Training on “Fire prevention and life Safety” by Rescue 1122






As a responsible corporate citizen, the SECP keeps its employees and visitor safety first. Keeping this in view, HR&T arranged a training on “Fire prevention & Life Safety” workshop by Rescue 1122 for its relevant staff. The objective of this training was to know the basics of timely emergency care in case of any disasters and events like earthquakes, floods, explosions or similar occurrences which may result in victims being trapped under both natural and man-made debris as a result of structural collapses.

The practical exercises and role-plays were appreciated by the participants wo were of the view that refresher trainings of this nature must be organized on a regular basis. Popular exercises that were in particular appreciated by the participating employees were breathing resuscitation and carrying hurt/injured people out to safety.

Cricket tournaments in SECP






The SECP has organized cricket tournaments in Islamabad, Lahore and Karachi. The objectives of these tournaments are to encourage healthy activities among employees, informal gatherings, fun and entertainment. The event would also provide employees with the opportunity to interact with each other in a casual and friendly environment in order to strengthen employee relationships within SECP.

The tournaments generated healthy competitiveness. These events also gave opportunity for interdepartmental networking and merriment. Some employees brought their families to view the matches.

Regulatory risks and policy II

By Mian Ahmad Ibrahim

If we desire to make meaningful progress as a nation, it is imperative that Pakistan also offers the entrepreneurs real incentives and tangible benefits to do business. To accomplish this, we must have a world-class enabling legal infrastructure in place. This infrastructure has to be not only transparent and flexible, but also responsive to the needs and challenges of the hour. So far, the policy and approach has been to tweak existing laws through incremental amendments to the original legislation—stretching the law far past its natural elasticity to cover novel dilemmas as they crop up. While this has sometimes proven adequate, there are certain inherent problems in such an approach that call for a complete rewrite—a task that has to be met with energy and creativity sooner rather than later.

It is absolutely critical that the entire framework be thoroughly examined not in isolation, but in a holistic and comprehensive way, focusing on how every piece of individual legislation will articulate in tandem with every other. There is a need for a complete overhaul—–from the 1984 Companies Ordinance, which is already nearing completion, to financial laws including banking laws, securities law, competition law, arbitration and tax including specialist courts and tribunals to ensure the prompt and transparent resolution of disputes.

The vision here is a shift away from sector-perspective body of law. It needs to be examined whether there remains a necessity for keeping sector-specific rules in areas such as contract and property, as opposed to bringing in unified sector-neutral principles to keep pace with financial innovation. Laws must be animated by an economic purpose and the market failures that they seek to address. Non-sectoral laws that apply uniformly across the financial system eliminate such inconsistencies of treatment, and also eliminate the problem of gaps and overlap. The key point of this reform will be to ensure conceptual clarity of the purpose of legislation.

At present, the regulatory structure has been defined by sector, and this has led to inconsistent treatment in regulatory arbitrate. Regulators of one sector have sometimes adopted the perspective of the industry and chosen lax regulation over aggressive consumer protection; whereas other regulators may have opted for a different priority.

I believe that a unified regulatory framework where governance standards for regulated entities will not depend on the form of organisation of a financial firm is best suited for Pakistan. This will yield ownership neutrality. The regulatory treatment of public or private financial companies should be identical. The public sector financial firms require effective regulation and supervision and are plagued by incompetence and other malpractices. However, the regulators have always either ignored their misdeeds or opted for lax treatment mainly because of the government's interest in those entities. The principles of equal treatment and a pro-competitive environment are the need of the hour.

It is high time we strengthen the institutions, especially the regulatory authorities and give them status independent of any government department and ministry. They should be given the status of state instrumentalities and recognition in the constitution. The chief executives of these authorities should be given the status of federal ministers. Independence and accountability of the regulators should be ensured at all costs.

As discussed earlier, laws must be defined in terms of their economic purpose rather than in terms of the powers conferred on regulatory agencies. This clarity of objectives is essential for obtaining accountability. If an agency is given the objective of regulation, then accountability is lost from the outset because it is always going to be impossible to demonstrate that it has indeed done regulation. Further, when a regulatory authority has multiple objectives, it is easier to explain away failure. When one goal conflicts with the other it becomes easier to avoid accountability, hence it is desirable to structure regulatory bodies with clarity of purpose and the absence of conflicting objectives.

The inter-agency coordination is particularly important for establishing the writ of the state in the financial sector. The decisions that affect multiple sectors need to be swiftly taken and correctly enforced. These issues bleed into the broader questions of public administration and law. In order to promote unified approach to regulation across the agencies, modern technology can be used to promote interconnectivity, along with the use of lightweight front-ends and centralized adjudication process. Consumers will only have to deal with one central body when they have grievances relating to any financial activity, and a thoroughly efficient feedback loop could be implemented.

An integrated statistical picture of the entire financial system should be used to identify the systemically important institutions and help coordinate joint work between multiple regulatory agencies in their micro prudential regulation. Full management information system about the activities of each agency should be placed into the public domain. As an example: for a supervisory process, the agency should be obliged to release data about pending and concluded investigations, orders issued, orders appealed, orders that were struck down, and a post facto analysis.

Consumers of financial services are often more vulnerable than consumers of ordinary goods and services and require a special effort by the state. The present system does not provide an effective and robust mechanism for their protection. Ideally, a unified and enumerated set of rights and protections for consumers, along with a set of powers and principles that guides what powers should be used under what circumstances by the regulators needs to be put in place to facilitate protection of the consumer.

Moving on from the issues of consumer protection and regulatory design to the regulatory architecture, there is a dire need to identify sectors which are still unregulated. Management of public debt is one such area with a dire need for legislation. Similarly, there is a case to be made for micro-prudential regulation which encourages reduced risk taking behaviour and the monitoring of the systemic risk. At a policy level, regulatory intervention should be proportionate to the risk involved. A single prudential law will govern the entire financial system and multiple regulators may enforce the law for various components of the financial system. Sound micro-prudential regulation will reduce the probability of entities failure. A well-drafted micro prudential law should apply to all components of finance, and a well-drafted legal process law should apply to all financial regulators.

There is a need for a thorough evaluation of what model of financial regulatory architecture will be most suitable for Pakistan. An overarching financial regulatory architecture law will ensure that changes in work allocation do not require changes to the underlying laws themselves. Research has established that constructing a large number of agencies is relatively difficult from a staffing perspective and it is efficient to place functions that require correlated skills into a single agency.

The question remains: How to achieve all of this? It is proposed that an overarching commission be formed, drawn from the primary regulators of the financial and corporate sectors to undertake a thorough study of the laws that govern the economy with the objective of identifying, all problem areas that are stumbling blocks today, and diagnose corrective measures that will ensure that the business landscape in Pakistan will not only be competitive but attractive to small, medium and large investors alike.

In order to conduct this extensive research and re-examination of the existing framework, a dedicated body committed to analysis of the laws encompassing the entire corporate and financial framework is needed, to be modelled after the Indian Financial Sector Legislative Review Commission (FSLRC), with the task of producing a comprehensive report that examines not only the conceptual foundations but fully explores the principles and rationale behind legislation and analyse transitional issues.

The elements that would be emphasized in the work process of this Commission would be to follow a consultative approach, reaching out to all stakeholders and academics to gather knowledge and perspective across all elements affecting the financial landscape. It should be a multidisciplinary approach, drawing on the fields of public economics, law, finance, macro-economics and public administration, the experience of all the principle regulators operating currently in the market, and the experiences of developing economies and emerging markets, as well as more developed jurisdictions, in order to understand how various financial laws and agencies have been constructed worldwide.

An in-depth examination of unified regulatory framework in other jurisdictions should be undertaken to understand how independence, transparency and accountability is ensured among the regulators involved. The principles of separation of power would have to be observed and safeguards placed to ensure that quasi-judicial and quasi-legislative functions are kept separate. Regulators need to have clear mission statements and statement of objectives to guide officers and give direction to the organizations such as 'serving public interest', and open-ended powers like 'any other action' should be sparingly used.

There should be a formal consultation process to gather feedback from practitioners and existing financial regulators, and this should be used to prepare market sector based reports which will serve as a starting point. Once the consultative process fully commences, adequate time should be given to market participants to understand a draft regulation and to comment on it. The regulator should substantively respond to all public comments following which modified guidelines should be released to the public.

The writer is working as joint director, law, at the SECP. At present, he is also working as secretary to the Corporate Law Review Commission. His professional interests include regulatory reform, securities and corporate law. He did his LLB from University of Punjab and LLM from Islamic International University, Islamabad. The third part will provide suggestions as to regulatory design of regulators. The views expressed in this article are those of the writer, and don't necessarily reflect those of the SECP.

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Insights on Islamic finance

By Imran Hussain Minhas

Islam is a complete code of life and prescribes the most beautiful arrangements to deal with our spiritual and worldly affairs. The Islamic scholars have presented the Islam in the following three basic segments:

Aqida (faith and belief): Aqida means faith and belief in Allah and to give shahada with strong belief in one's heart that there is no deity except Allah and Prophet Mohammad (pbuh) is His abd and last Prophet. Besides the strong belief in Allah and His last Prophet, Shahada includes belief in angels, sacred books, all the Prophets, resurrection, Qaza and Qadar.

Shariah (practices and activities): Shariah has its four parts; the first part is related to the ibadat (worship), including the compulsory like namaz, fasting, zakat and Hajj and the voluntary ibadaat. The second part of Shariah is called Muamulaat, which is related to the political, social and economic transactions of human beings. The subject of Islamic banking and finance is related to this very part of the Shariah. Third part of the Shariah is known as Ahwal Shakhsiyyah, which is related to the family matters and the last part is Jinayat, which is related to crimes, offenses and their punishments.

Akhlaq (moraliy and ethics): Akhlaq is the third segment of Islam and related to man to man and man to Allah's relationships. It requires that every activity must be based on ethics and morality. Akhlaq is based on submission of a Muslim to Allah and accepting Mohammad (PBUH) as a role model.

Islam has laid down comprehensive set of rules to run social, political and economic system. Islam advises to lay down such a system, which is free of exploitation and discrimination. It should ensure that the basic needs of all citizens are met with justice. The primary sources of Islamic law are the Quran, the Sunnah (Hadith), ijma and qiyas.

The Quran is a primary source of Islamic jurisprudence. The Sunnah is the secondary source of Islamic law. Ijma means to determine to agree upon something. It is the consensus of the Muslim ummah. Qiyas (deductive analogy) means comparing and contrasting one thing with another similar thing to find out

solution of the modern problem within the confines of the Quran and Sunnah.

Being Muslims we believe that anything which is declared haram (forbidden) by Allah cannot have any benefit for us. Among the financial transactions, riba is one of the basic items which have been declared haram, whereas, it is a key to the conventional banking system. Before we discuss the Islamic finance it is very important to understand riba first.

What is riba? The word 'riba' means to increase, to grow, to multiply and to climb. In economic context, it is generally considered an increase which a lender receives, from the borrower for use and delay in repayment of his money, under a contract. Despite some controversy in application, the core idea has been held unanimously throughout Islamic history that the riba is "excess charged over the principal in case of a loan".

Riba and Islam: Riba-based business was well established in the pre-Islamic Arabia, but the Arab traders considered it illegal. When the chiefs of Quraish decided to rebuild the Kaabah, they rebuilt it with halal funds. The money that was earned from harlotry, usury or unjust practices was excluded (Ar Raheeq Al Makhtum). Both the Quran and the Hadith prohibit riba.
Allah has declared trade to be legal and admissible, and has forbidden riba. The Quran urges believers to earn profits, avoid riba and adopt charity. Riba primarily is an economic issue and interestingly not only Islam, but also Christianity and Judaism have disapproved of it. Criticism of usury in Judaism has its roots in several Biblical passages in which the taking of interest is either forbidden, discouraged or scorned. Later Jewish and Christian theologians abandoned the prohibition of riba on their own. Here are some of the relevant references:
The Book of Deuteronomy is the fifth book of the Old Testament, and of the Jewish Torah/ Pentateuch, read about riba as under: "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury:Unto a stranger thou mayest lend upon usury; but unto thy brother thou shalt not lend upon usury: that the Lord thy God may bless thee in all that thou settest thine hand to in the land whither thou goest to possess it."

If he does not lend money on interest or take increase, if he keeps his hand from iniquity and executes true justice between man and man. If he walks in My statutes and My ordinances so as to deal faithfully—he is righteous and will surely live, declares the Lord God...(Ezekiel 18: 8,9).

The Roman Catholic Church by the fourth century AD prohibited the taking of interest. In the eighth century, they declared usury to be a general criminal offence. In 1311, Pope Clement V made the ban on usury absolute and declared all secular legislation in its favor null and void (Birnie, 1952).
The Church of Scotland, in the 1988 study report on the ethics of investment and banking declared: "We accept that the practice of charging interest for business and personal loans is not, in itself, incompatible with Christian ethics. What is more difficult to determine is whether the interest rate charged is fair or excessive."
The Indian religious manuscripts derived from the Vedic texts of ancient India (2,000-1,400 BC), Sutra texts (700-100 BC), as well as the Buddhist Jatakas (600-400 BC) have also condemned usury in one or the other way.

Even the secular literature of the ancient Western philosophers namely named Plato, Aristotle, the two Catos, Cicero, Seneca and Plutarch also condemn usury (Birnie, 1958). Aristotle (384-322 BC) in his book 'Politics' criticized interest in following words "Of all modes of getting wealth, this is the most unnatural."
In short, the interest of today is nothing but riba. The sugarcoating of riba in the form of banking profits and munafa does not make it halal. The unlawfulness of riba stands proven on the authority of the above references.
Keeping in view the harmful effects of riba, it has been prohibited in Islam. Islam has allowed trade and favors businesses on mudarabah and musharakah basis, the reason being that, there are so many benefits for the people and economies in trade. Trade creates economic opportunities in the economy by promoting and generating businesses, industries, employment, goods and services etc.

Riba and its kinds: There are two types of riba discussed by Islamic jurists riba an nasi'ah and riba al fadl. Riba an nasiah is also known as riba al Quran, riba Al Jahiliya. It is defined as excess, which results from predetermined interest, which a lender receives over and above the principle (ras ul maal) for his waiting or delay in return of money, irrespective of the fact whether it is at a higher rate or lower. Riba an nasi'ah is the actual form of riba. Since, the Quran has declared such type of riba as haram, it is called riba al-Quran.

Riba al fadl is defined as an excess compensation, either in measurement or weight, without any consideration resulting from exchange of goods. Since the prohibition of this riba has been established in Sunnah, it is also called riba Al Hadith. A famous Hadith prohibiting riba in exchange of homogenous commodities and encountered in their hand-to-hand purchase and sale is given below:
The Holy Prophet (PBUH) said, "Sell gold in exchange of equivalent gold, sell silver in exchange of equivalent silver, sell dates in exchange of equivalent dates, sell wheat in exchange of

equivalent wheat, sell salt in exchange of equivalent salt, sell barley in exchange of equivalent barley, but if a person transacts in excess, it will be riba (usury). However, sell gold for silver anyway you please on the condition it is hand-to-hand (spot) and sell barley for date anyway you please on the condition it is hand-to-hand (spot)."—Muslim.
Note: This is first part of the 'Insight on Islamic finance'. The next parts will talk about understanding of Islamic finance and its products.

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News in brief

SECP advises public sector companies

The Securities and Exchange Commission of Pakistan has advised all the public sector companies to ensure meticulous compliance with the provisions of the Companies Ordinance 1984, and the Public Sector Companies (Corporate Governance) Rules 2013, a circular in this regard issued on June 11, 2014.

The circular addressed to the chief executive officers of all the public sector companies, said that it has been observed, on the basis of reports received from the registrars concerned, that a very few companies have complied with the statutory requirements under the ordinance, including primarily, those relating to the holding of annual general meetings (Section 158), filing of annual returns (Section 156) and annual audited accounts (Section 242). Most of the public sector companies have not been complying with the statutory requirement of notifying appointment of chief executive, directors and auditors (Section 205), it said. In some cases, it has also been reported to the commission that the Articles of Association of some of the companies contain certain provisions, which are inconsistent with the rules.

Asset management services license of NAMCO suspended

In order to protect the interest of unit/certificate holders, the Securities and Exchange Commission of Pakistan has suspended the asset management services license of the National Asset Management Company Limited. A penalty of one million rupees was also imposed on NAMCO, and of 150,000 rupees on each of its directors for failing to comply with various regulatory requirements. The Order was issued on June 4, 2014.

NAMCO is currently managing one closed-end fund, i.e. NAMCO Balanced Fund (NBF) and one open-end scheme, i.e. NAMCO Income Fund (NIF) with net assets of Rs1081.87 and Rs115.28 million respectively.

The major transgressions of the company include its failure to comply with the minimum equity requirement, non-conversion of NAMCO Balanced Fund(NBF) into an open-end scheme despite approval of its certificate holders in January 2013, non-adherence of NAMCO Income Fund (NIF) to minimum prescribed fund size, and failure to appoint a CEO, and directors to the board within the prescribed time period.

While taking cognizance of the ongoing noncompliance, the SECP issued show-cause notices on November 1, 2013 and February 7, 2014 to the NAMCO's board of directors, and after completing the due process of law, and giving various opportunities to the company to explain itself, it was established that NAMCO knowingly and willfully violated the provisions of the prevalent regulatory framework.

SECP approved regulations for Direct Settlement Services

The SECP has approved the regulations of the National Clearing Company of Pakistan Limited (NCCPL) to provide for the clearing and settlement mechanism of the Direct Settlement Services (DSS), which is operated and managed by the Central Depository Company of Pakistan Limited (CDC).

Currently, the investors of stock market can only settle their trades through the sub-accounts which are under the control of the brokers. It is important to highlight that the investors also have the option to open the Investor Account which is operated by CDC itself only upon the instructions of the client and eliminates the risk of misuse of securities by the broker. However, as per the prevailing settlement mechanism, the investors were not able to settle their trades through their Investor Accounts.

The introduction of DSS removes this weakness and enables the investors to settle their trades form their respective Investor Accounts without the involvement of brokers.

Listed companies allowed videoconferencing

In order to facilitate shareholders and to ensure their participation in meetings, the SECP is allowing listed companies to hold general meeting through video conferencing facility.

Listed companies can hold general meetings through videoconferencing with a view to providing larger participation and lowering attendance costs for shareholders. The facility will allow shareholders residing at different locations to participate in meetings.

Videoconferencing can be used to enhance shareholders' involvement during general meetings. The use of videoconference appears to be the best option as it allows face-to-face interaction among various people at different locations. Shareholders' general meeting through videoconference has been allowed in other jurisdictions such as India, Hong Kong, the US, and Denmark.

Online payment facility launched

SECP has announced the launch of online payment facility for its stakeholders. An arrangement has been made with MCB Bank Limited, whereby, MCB customers can make payments to SECP through MCB's internet banking facility. Now customers with accounts with MCB bank can make payments to SECP through online funds transfer facility without the hassle of visiting a bank or the SECP offices.

Online filers of SECP can submit their documents through eServices and generate challan for payment, as per previous practice. Upon generation of challan, the user shall login to his internet banking account with MCB and make payment to SECP using the challan number generated by SECP's eServices. With the launch of online payment facility, it is now possible for stakeholders sitting anywhere in the country, having internet facility, to make filing and related fee payment.

The SECP had taken a number of steps in the past such as, placement of model memorandum and articles of association on its website, online filing facility (eServices), online company name search facility, almost 50% less fees for online filers, online company profile search, fast track registration services, guidebooks to name a few.

Rule Book for Karachi Stock Exchange approved

The Securities and Exchange Commission of Pakistan—in terms of Section 34(1) of 1969 the Securities and Exchange Ordinance —has accorded its approval to the Rule Book for the Karachi Stock Exchange Limited (KSE).

Consequent to the corporatization and demutualization of the stock exchanges in 2012, the SECP has initiated major structural reforms at the stock exchanges in line with the 2012 Stock Exchanges (Corporatization, Demutualization and Integration) Act. This includes the much needed segregation of commercial and regulatory functions and reorganization of the regulatory functions of the stock exchanges into a dedicated Regulatory Affairs Department, supervised by a Regulatory Affairs Committee consisting entirely of independent directors appointed by the SECP.

The Rule Book incorporates necessary changes to the regulatory framework consequent to the demutualization process, while providing regulatory cover to the structural changes at the KSE, including recognition of the role of the Regulatory Affairs Committee and the Chief Regulatory Officer in the regulatory, enforcement and arbitration domains.

SECP initiates process of e- voting

The Securities and Exchange Commission of Pakistan initiated the process for e-voting to facilitate members to vote for resolutions in the general meetings through e-voting. The SECP has provisionally approved the e-voting scheme and has drafted relevant regulations.

The technological advances have enabled members to participate in general meetings without being physically present. Electronic voting or "e-voting" is one such method which is becoming popular throughout the world to facilitate shareholders and to maximize their participation in general meetings for various approvals from members of a company. The proposed regulations provide that companies shall communicate to their member the option to participate through e-voting, in the business to be approved at the general meeting. The members opting for e-voting shall have to appoint the intermediary, nominated by the company, as their proxy.

Members intending to cast an electronic vote are required to be authenticated through secured electronic signature provided by the intermediary, and shall cast vote online through the website of intermediary during the time specified in the notice of the meeting. The intermediary is required to keep the result of electronic vote confidential and cast vote on behalf of members acting as their proxy during the time of poll.

SECP issues draft Unit Linked Products & Funds Rules, 2014

The Securities and Exchange Commission of Pakistan (SECP) has issued draft Unit Linked Products and Funds Rules, 2014.

The new rules have addressed broad product features form regulatory perspective such as minimum financial protection, premium indexation and maximum aggregate commission on unit linked business. However, the primary focus of these rules have been on addressing the investment governance process of the unit linked funds, net asset valuation methodology and the disclosure of investment risk to the insurance policyholders. The new rules have also broadened the statutory role of the appointed actuary by requiring his inclusion in the investment committee. The draft rules require that the investment governance process to be more structured, documented and consider the asset as well as liability characteristics of the insurance portfolio. It is further required that statutory auditors should give separate opinion on the accounts of unit linked funds. A statement of investment performance measurement has also been required. The draft rules also require that an annual statement of the unit account should be sent to policyholders to improve communication of insurance policy benefits to the customers.

SECP drafts new provident fund rules

The Securities and Exchange Commission of Pakistan, based upon the redundancy of certain provisions in the existing Employees' Provident Fund (Investment in Listed Securities) Rules, 1996, has drafted new Employees Provident Fund (Investment in Listed Securities) Rules, 2014.

The new rules have been reviewed by the Ministry of Finance and have been published in the official gazette vide SRO 80(I)/2014. The new rules were formulated with the main emphasis on improving/tightening governance structure of the employees' provident fund/trust, coverage of risk vis-à-vis ensuring possibility of maximum return on the fund. Furthermore, the new rules are comprehensive and provide more investment avenues to the fund/trust to increase employee's wealth.

Broker's role will be further cut down: Zafar Abdullah

The Securities and Exchange Commission of Pakistan has embarked upon a new plan to mitigate the role of broker by providing controlling authority to the investors to directly manipulate shares in the stock exchanges of the country.

"We will be launching two products with Depository Company of Pakistan Limited (CDC) and National Clearing Company of Pakistan (NCCP) to keep the shares and finances with them instead of with the broker", Zafar Abdullah Commissioner, Securities Market Division; Support Services Division said.

Talking to journalists at a daylong workshop held at the SECP's head office, he said "broker's role would be reduced in the system so he cannot manipulate the shares," he said hence paying way for checking his power of manipulating shares. Currently, the investors/share holders have to access the trading practice through their brokers and brokers are keeping record of their transactions, so they are in position to manipulate the shares and could involve in misappropriation, he added.